Getting Rid of PMI – Know Your Options

By: James R. Gargano, Jr., CRP, IFAS

Private Mortgage Insurance (PMI) is required by lenders when a buyer's down-payment is less than twenty percent of the property's purchase price. The fundamental purpose of PMI is to protect the lender in the event of the buyer's default. This is true since borrowers with down-payments of less than twenty percent are considered a greater risk.

PMI is not permanent. It is possible and desirable to rid yourself of this financial burden. Although various lenders have different rules regarding the removal of PMI, many of these rules are universal. Lenders refer to the relationship between your loan amount and the value of your property as the loan-to-value-ratio (L TV). It is most common for a lender to allow PMI to be removed when your L TV is 80% or less.

In most neighborhoods appreciation occurs. Sometimes, this-increase in value alone can make the elimination of PMI a reality. In other cases, a combination of appreciation and of capital improvements together create an increase in value high enough to allow the PMI to be removed. Examples of capital improvements are major enhancements to your residence, such as replacement of carpeting, modernization of a bathroom or upgrading of a kitchen.

If your residence has increased in value to the point where you believe PMI should be removed, you must now prove the worth of your property to the lender. This is accomplished by securing an independent fee appraisal. Since it is in the lenders best financial interest to keep you from removing PMI, it is important that the appraisal is an intelligently written, supportable and defensible document. Usually, you can be referred to a professional appraiser through your local real estate agent or real estate attorney.

When the appraisal is completed, your lender will request that you sign several other documents of their selection and mail the packet to them. The entire process of removal of PMI should be less than two weeks.