Private mortgage insurance

Additional mortgage protection for low equity home buying

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For home buyers who want to purchase a home but have a down payment of less than 20 percent of the home's value, the mortgage lender may require private mortgage insurance (PMI).

Private mortgage insurance pays out to the mortgage lender, protecting that entity against loss if you, the borrower, default on the loan.

Because PMI is available to protect the lender, it enables borrowers with less cash to have greater access to homeownership.

Assuming the borrower has a good payment history, once the loan balance is paid down to 80 percent of the property value, lenders will often drop the PMI coverage requirement.

Note that the responsibility for keeping track of the loan balance generally falls to the borrower, so when your loan balance is paid down, be sure to request that the PMI requirement be dropped. If you fail to request that the lender drop the coverage, you may find yourself paying unnecessary premiums.

Next steps link: Buying a home?Learn the homeowners insurance basics.

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