Private Mortgage Insurance

Private Mortgage Insurance (PMI) is an insurance policy that protects the lender in the event that the borrower defaults on the loan. Lenders generally require PMI on loans where the loan to value ratio exceeds 80%, or, in other words, the buyer's downpayment on the loan is less that 20%.

In the event of foreclosure, the PMI company may compensate the lender for certain losses incurred. PMI insurance offers no protection to the buyer. The PMI premium is generally tacked onto the borrowers monthly mortgage payment.

In obtaining an FHA loan, borrowers pay for an upfront mortgage insurance premium (MIP) which is itemized on the settlement statement at closing. Borrowers obtaining VA loans will not pay PMI or MIP; however, the Department of Veterans Affairs charges a similar VA Funding Fee which is also itemized on the settlement statement.