



## Mortgage Insurance (MI) Plan Comparison, Questions and Answers, and Examples

MI Plan Comparison			
	Monthly Premium	Single Premium	Split Premium
MI Payment Description	No upfront MI premium, premium paid monthly	One-time upfront MI premium with no ongoing MI payments	Both an upfront MI premium and monthly MI payments; features multiple upfront premium options with corresponding ongoing premiums
Payment Options	Borrower pays monthly	<ul style="list-style-type: none"> <li>The upfront premium can be paid at closing by the borrower, an interested third party (subject to contribution limits), or financed into the loan amount.</li> </ul> <b>OR</b> <ul style="list-style-type: none"> <li>Lender buys the MI and increases borrower's note rate or discount points to indirectly cover the cost of the MI premium.</li> </ul>	<ul style="list-style-type: none"> <li>The upfront premium can be paid at closing by the borrower or an interested third party (subject to contribution limits). It can also be financed into the loan amount.</li> <li>The ongoing premium is typically paid by the borrower.</li> <li>If lender-paid, the cost of the upfront and ongoing MI premiums will be added to the borrower's note rate or discount points.</li> </ul>
At Closing	Monthly premium required for escrow	Entire MI premium amount is due	One-time upfront MI premium paid at closing plus monthly premium required for escrow
Net (base) LTV <sup>1</sup> for Loans with Financed MI	N/A	Used to determine required MI coverage percentage	
Max LTV or Gross LTV <sup>2</sup> for Loans with Financed MI	97% (for LTVs >95% up to 97%, the transaction must qualify for one of the <u>97% LTV Options</u> )		
MI Coverage	Based on LTV	Based on LTV or Net LTV when all or a portion of the MI premium is financed	



## MI Plan Comparison

	Monthly Premium	Single Premium	Split Premium
<b>Fannie Mae Eligibility Requirements and LLPAs</b>	Based on LTV	Based on LTV or Gross LTV when all or a portion of the MI premium is financed	
<b>Other Eligibility Restrictions</b>	<ul style="list-style-type: none"> <li>For lender-purchased MI, restrictions exist for convertible ARMS. (See the <i>Selling Guide</i>.)</li> </ul>	<ul style="list-style-type: none"> <li>Mortgage loans with financed mortgage insurance must be purchase, construction, or limited cash-out refinances (LCOR) for one-unit principal residence or second home</li> </ul>	
<b>Borrower Benefit</b>	<ul style="list-style-type: none"> <li>No add-on to note rate or loan amount</li> <li>No upfront MI premium cost</li> </ul>	<ul style="list-style-type: none"> <li>Highest potential tax deduction benefit since cost is either financed in the loan amount or funded through a higher note rate<sup>3</sup></li> <li>Generally with financed single premium, PITI will be lower than if the MI premium is paid monthly</li> </ul>	<ul style="list-style-type: none"> <li>Generally with financing the upfront portion of a split premium, PITI is lower than if the entire MI premium is paid monthly</li> </ul>



<p style="text-align: center;"><b>Other Considerations</b></p>	<ul style="list-style-type: none"> <li>▪ No tax benefit for MI premiums paid after 2016 unless Congress extends the tax benefit<sup>3</sup></li> <li>▪ Generally produces the highest monthly mortgage payment for the borrower</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increased UPB and more interest over the life of the loan if financed into the loan amount</li> <li>▪ Higher initial cost to borrower if borrower-paid</li> <li>▪ If not financed, results in higher closing costs for the borrower</li> <li>▪ All or part of upfront MI cost may be included in Qualified Mortgage (QM) points and fees limit<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Increased loan amount or note rate, based on financing option for the upfront portion</li> <li>▪ If not financed, results in higher closing costs for the borrower</li> <li>▪ All or part of upfront MI cost may be included in QM points and fees limit<sup>4</sup></li> </ul>
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**Notes**

1 Net LTV is calculated without the MI premium.

2 Gross LTV is calculated with the partial or lump sum MI premium included in the loan amount.

3 Fannie Mae does not provide tax advice. Borrowers should confirm the tax effects with their tax advisor.

4 Need to consider the implications of upfront MI for compliance with Fannie Mae's *Selling Guide* provisions on points and fees, as well as those required by the Consumer Financial Protection Bureau.

NOTE: *Information contained in this summary is for informational purposes only. Refer to Fannie Mae Selling Guide [section B7-1-01](#), Provision of Mortgage Insurance and the insurers' guidelines, for complete mortgage insurance requirements.*



## Questions and Answers

### Q1. What is the difference between a “financed MI transaction” and a “prepaid MI transaction”?

These are the two options Fannie Mae provides to lenders for limited cash-out refinance transactions in which MI is included in the loan amount. The key difference between the two transaction types is how the MI cost is treated and how the MI coverage requirement is calculated.

#### Financed MI transaction

- The lender must identify the upfront financed MI amount separately and follow Fannie Mae’s requirements for entering in Desktop Underwriter® (DU®) and coding for loan deliveries.
- The MI coverage requirement is based on the net LTV (i.e., the LTV without inclusion of the financed MI amount).
- This approach typically offers the best solution when
  - lenders are looking for a simplified operational approach to address limited operational capabilities for financed MI, and/or
  - the financed MI amount is substantial enough to make a difference in the required MI coverage percentage when comparing the net LTV and gross LTV (e.g., financing a split- or single-premium MI plan – see examples on page 6).

#### Prepaid MI transaction

- Treat upfront MI amount as a prepaid item at closing. Lenders need not separately identify the upfront financed MI amount; it is simply included with other allowable prepaid closing costs.
- There are no special DU data entries or delivery coding requirements – the loans are treated as any other limited cash-out refinance.
- This approach typically offers the best solution
  - with smaller MI amounts (e.g., escrows related to monthly MI rate plans, or some portion of upfront annual or split premiums) that would have little or no impact to the required MI coverage percentage.
- A potential drawback with this method is that the net LTV cannot be computed, so the required MI coverage may be higher than it would be under a financed MI transaction.

NOTE: *The total LTV for both transaction options must meet the LTV limits in Fannie Mae’s [Eligibility Matrix](#) for loans with the corresponding loan characteristics.*



**Q2. What are the eligibility requirements for loans with financed MI?**

Loans eligible for financed MI are limited to one-unit purchase, construction, or limited cash-out refinance for principal residences or second homes.

**Q3. What are the eligibility requirements for loans with prepaid MI?**

Prepaid MI is limited to refinance loans only and may include closing costs, prepaid items, and points in the loan amount.

**Q4. Why does Fannie Mae require more MI coverage under the prepaid MI option than under the financed MI option?**

With financed MI, the upfront MI amount being financed is identified separately and the lender obtains an “endorsement” to the MI policy, which says that, in the event of a claim, the policy fully covers the portion of the loan that is the unamortized portion of the loan amount relating to the financed MI premium. As such, Fannie Mae’s exposure is no more than it would be if the borrower did not finance the MI – which is why Fannie Mae permits the coverage percentage to be computed using the net LTV. However, with prepaid MI, because the upfront MI amount being financed is not broken out separately and is lumped in with other closing costs, the MI company cannot provide its typical financed MI policy endorsement; therefore, Fannie Mae’s exposure is based on the total LTV, including the closing costs with the upfront MI amount embedded. So, it is important to recognize that borrowers can get the best execution in terms of required MI coverage with lenders who offer and are operationally capable of using the financed MI option.

**Q5. What special feature code should be used in delivering a mortgage loan with financed MI?**

Special Feature Code 281 is used to identify mortgages that have a borrower-paid mortgage insurance premium that is financed in whole or in part into the loan amount. The gross LTV ratio is determined after the financed premium is added. The mortgage insurance premium is determined before the premium is added to the loan amount.

**Q6. Does the “ability to repay” rule published by the Consumer Financial Protection Bureau (CFPB) have any impact on MI premiums?**

Certain MI premiums must be included in the points and fees tests that we apply. Lenders must comply with our policy requirements as well as CFPB standards for determining the circumstances for inclusion or exclusion.



## Limited Cash-Out Refinance Examples

	Example 1 Single Premium – Financed MI	Example 2 Single Premium – Prepaid MI	Example 3 Monthly Premium Escrow – Prepaid MI
Home Value	\$254,000		
Current Loan Balance	\$225,000		
Closing Costs/Prepaid Items/ Points (excluding upfront MI)	\$3,500		
Net Loan Amount	\$228,500 [\$225,000 + \$3,500]		
Standard MI Coverage Required (sample rates based on credit score 740, FRM 30-yr, owner- occupied)	Net LTV 90%, MI coverage of 25% Rate: 1.37%	LTV of 95%, MI coverage of 30% Rate: 2.15%	LTV of 90%, MI coverage of 25% Rate: 0.41% annually, 2 months escrow
Upfront MI Cost (all plans except single-premi- ums require ongoing monthly MI payments not shown here)	\$3,130  Computation: 1.37% x \$228,500	\$4,961  Computation: [2.15% x \$228,500] ÷ (100% - 2.15%)	\$156  Computation: [0.41% x \$228,500] ÷ 12 x 2mos
Financed Loan Amount	\$231,630 (=\$228,500 + \$3,130)	\$233,461 (=\$228,500 + \$4,961)	\$228,500
Final LTV with Closing Costs and MI Premiums Financed in Loan Amount	91.2% (=\$231,630 ÷ \$254,000)	91.9% (=\$233,461 ÷ \$254,000)	90.0% (=\$228,500 ÷ \$254,000)
LTV Used for MI Coverage	90% (=\$228,500 ÷ \$254,000)	91.9% (=\$233,461 ÷ \$254,000)	90.0% (=\$228,500 ÷ \$254,000)

### Notes

**Example 1:** This loan uses a single-premium MI plan that will be financed in the loan amount. The loan is submitted in DU as a financed MI transaction, allowing the MI cost to be excluded from the LTV calculation, resulting in a premium based on 90% LTV (see above). The loan amount and financed MI amount are entered in DU separately.

**Example 2:** This loan also uses a single-premium MI plan that is included in the total financing, but the MI cost is submitted in DU as a prepaid item. This results in an LTV inclusive of MI cost that exceeds 90%, so the required standard MI coverage is 30% (for the 90.01–95% LTV category).

**Example 3:** This loan uses a monthly premium MI plan requiring two months to be escrowed at closing that will be included in the closing costs that are added to the loan amount. Note that MI companies also offer monthly premium plans that do not require upfront escrows, in which case this example would not apply.

**Examples contained in this document are for illustrative purposes only.**

**Actual results will vary depending on the individual characteristic of each loan and the required MI premiums.**