

# Cancelling Borrower-Paid Mortgage Insurance

## FREQUENTLY ASKED QUESTIONS



Borrower-paid private mortgage insurance (BPMI) may be cancelled in a few different ways, depending upon a borrower's situation. The Homeowners Protection Act of 1998 established rules for both automatic termination and borrower-requested cancellation of BPMI on certain home mortgages.

### HOMEOWNERS PROTECTION ACT

- The Federal Homeowners Protection Act (HPA) requires that BPMI be cancelled when there is a certain amount of equity in the property securing an insured loan. The act covers privately insured first mortgages on single-family primary residences, whose sales were closed on or after July 29, 1999.
- There are provisions for both borrower-requested cancellation and automatic cancellation based on the "original" property value. A borrower must initiate a borrower-requested cancellation with a written request to the lender or mortgage servicer.
- In order to actually cancel the BPMI, for both types of cancellation, the mortgage servicer must request cancellation from the MI company.

#### How is "original" property value determined under the HPA?

- For a Purchase transaction, the lesser of Purchase Price or appraised value is used to determine the "original" value (even for a Purchase

transaction on a New York state property, as the HPA supersedes the NY Insurance Law – refer to [www.dfs.ny.gov/insurance/ogco2001/rg105152.htm](http://www.dfs.ny.gov/insurance/ogco2001/rg105152.htm) for additional details); and

- For a Refinance transaction, the appraised value is used.

#### When can a borrower request cancellation of BPMI under the HPA?

- When the balance on the mortgage is scheduled to reach, OR has actually reached, 80% of the home's original value, a borrower has the right under the HPA to request cancellation of the BPMI.
- In order to cancel, the borrower must be current on the mortgage payments and have a good payment history.
- In addition, the borrower must satisfy the mortgage servicer's requirements to demonstrate that there are no subordinate liens on the property and that the property value has not declined below its original value.
- There is no minimum seasoning requirement.

#### With respect to borrower-requested BPMI cancellation, who does the borrower notify?

- If a borrower wishes to cancel BPMI, they must provide a written request for cancellation to the mortgage servicer, who, if satisfied that all conditions are met, then cancels the BPMI with the mortgage insurance provider.

#### How does BPMI get automatically cancelled?

- The HPA requires mortgage servicers to automatically cancel BPMI when the mortgage balance is scheduled to reach 78% of the home's original value and payments are current.

#### Will the borrower get a refund?

- Depending on the situation, a borrower may be eligible for a refund of unearned BPMI premiums when the policy is cancelled.
- The borrower should contact the mortgage servicer about the particular loan, mortgage insurance premium product, and other conditions that may apply.

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### FANNIE MAE<sup>®</sup> AND FREDDIE MAC<sup>®</sup> LOANS

#### What if my loan is with Fannie Mae or Freddie Mac?

- While the HPA provides for legally required cancellation of BPMI, for 1-unit Primary Residences, Fannie Mae and Freddie Mac have additional guidelines for both borrower-requested and automatic cancellation of BPMI (including BPMI cancellation for 2nd Homes, 2-4 Unit Primary or 1-4 Unit Investment Property).
- Fannie Mae and Freddie Mac allow for cancellation of BPMI based on a property's "current" value, in addition to cancellation based on a property's "original" value, as required by the HPA.
- For cancellation of BPMI based on the "current" property value, the GSEs typically require that the borrower's payments on the loan be current, the loan be at least 2 years old, and the borrower have an acceptable payment history (seasoning requirement may be waived when Borrower has made significant property improvements).
- See the Fannie Mae and Freddie Mac Seller/Servicer Guides for full details of the GSEs' cancellation requirements.

#### How is the "original" property value determined by Fannie Mae and Freddie Mac for BPMI cancellation?

- For a Purchase transaction, the lesser of Purchase Price or appraised value is used to determine the "original" value (except the appraised value is used for a Purchase transaction on a New York state property); and

- For a Refinance transaction, the appraised value is used.
- For Co-op properties, refer to Fannie Mae Guide Section B7-1-01 for additional requirements.

#### How is the "current" property value determined?

- The mortgage servicer must obtain a new appraisal that is based on an inspection of both the interior and exterior of the property.
- The servicer warrants to the GSE that owns the loan that it has reviewed the appraisal and is satisfied that the opinion of value is both reasonable and adequately supported by market data.
- The mortgage servicer may charge the borrower for the cost of this appraisal.

#### Does Fannie Mae/Freddie Mac have a seasoning requirement for borrower-requested BPMI cancellation based on "original" value?

- No, the GSEs do not have a minimum seasoning requirement for borrower-requested BPMI cancellation based on "original" value for 1-unit Primary, 2nd Homes, 2-4 Unit Primary or 1-4 Unit Investment Property.
- The borrower may request BPMI cancellation after making a pre-payment and the reduced LTV now meets the minimum GSE requirement.
- **Note:** The GSEs do have seasoning requirements for borrower-requested BPMI cancellation based on "current" value.

#### The GSEs have different minimum LTVs for BPMI cancellation depending upon the property occupancy type. How is the property occupancy determined for BPMI cancellation purposes?

- The property occupancy type stated on the 1003 loan application at time of loan origination is to be used for BPMI cancellation purposes.

#### Where can I get more information?

We've only provided basic information regarding cancellation of BPMI. Additional information regarding cancellation of BPMI can be found:

- The Consumer Financial Protection Bureau's (CFPB) website at [www.consumerfinance.gov/](http://www.consumerfinance.gov/)
- Fannie Mae Guide Sections B7-1-01 and B-8.1-04
- Freddie Mac Guide Sections 4201.3(b), 8203.1-8203.7 and 9205.11
- National MI's website at [nationalmi.com/mi-cancellation](http://nationalmi.com/mi-cancellation)

This content is intended to provide an informational overview of BPMI cancellation and does not constitute legal advice. The HPA contains numerous additional provisions that we do not address herein. To assure compliance with any obligations your organization may have under the HPA, you should review the HPA itself along with your independent legal counsel. Individual states may also have mortgage insurance cancellation laws that may apply. Fannie Mae and Freddie Mac requirements were taken from the most recent versions of their Seller/Service Guides and are subject to change. See those Guides for the most up-to-date mortgage insurance cancellation information.