



THE HOMEOWNERS PROTECTION ACT

PMI CANCELLATION

SINGLE FAMILY OWNER-OCCUPIED

SUMMARY

On July 29, 1998, Congress enacted the Homeowners Protection Act (HPA) to require lenders to cancel mandatory private mortgage insurance (PMI) on residential mortgage loans under certain circumstances. The Act's provisions took effect July 29, 1999 and apply to loans consummated on or after that date.

The HPA provides:

(1) A right to cancel when the principal balance of the loan reaches 80% of the original value of the property securing the loan.

The mortgagor has the option of tying the right to cancel to either of the following cancellation dates:

- The date on which the principal balance of the mortgage, based solely on the amortization schedule for the mortgage loan and irrespective of the outstanding balance on that date, is first scheduled to reach 80% of the original value of the property securing the loan; or
- The date on which the principal balance of the mortgage, based solely on actual payments, reaches 80% of the original value of the property securing the loan.

The mortgage must satisfy the following requirements to exercise this right to cancel:

- The mortgage must submit a written request for cancellation to the servicer of the loan.
- The mortgagor must have a "good payment history" on the mortgage loan. This means that the mortgagor has not made any mortgage payment 60 days or more past due during the 24-month period preceding the cancellation date. In addition, it means the mortgagor has not made any mortgage payment 30 days or more past due during the 12-month period preceding the cancellation date.
- The mortgagor must satisfy any requirement of the holder of the mortgage, as of the date of the written cancellation request, for: (a) evidence that the value of the property has not declined below the original value of the property; and (b) certification that the equity of the mortgagor in the residence securing the mortgage is not encumbered by a subordinate lien.

(2) An automatic termination when the principal balance of the loan reaches 78% of the original value of the property securing the loan.

- On that date the mortgagor must be current on the payments required by the terms of the loan. If the mortgagor is not current on that date, then the PMI requirement must automatically terminate when the mortgagor becomes current on the payments required by the terms of the loan.

(3) An automatic termination when the loan reaches the scheduled midpoint of the amortization period.

- On that date the mortgagor must be current on the payments required by the terms of the loan. If the mortgagor is not current on that date, then the PMI requirement must automatically terminate when the mortgagor becomes current on the payments required by the terms of the loan.

What about the person who wants to drop their PMI due to their property value increasing and now having 20% equity in the property? The old guidelines apply. Basically, call the servicer of the loan and ask them what their guidelines are. Most lenders will want two years of a good payment history to drop the PMI in cases like this. The HPA permits a lender to offer more generous cancellation and termination policies than those it requires.

THE CANCELLATION AND TERMINATION RULES DO NOT APPLY TO MORTGAGES ORIGINATED BEFORE JULY 29, 1999; MORTGAGES ON OTHER THAN SINGLE-FAMILY DWELLINGS; MORTGAGES ON SECOND HOMES OR NON-OWNER OCCUPIED PROPERTY; MORTGAGES OBTAINED FOR PURPOSES OTHER THAN THE ACQUISITION, CONSTRUCTION OR REFINANCING OF A DWELLING; OR MORTGAGES DESIGNATED AS HIGH-RISK LOANS (EXCEPT THAT AUTOMATIC TERMINATION AT THE SCHEDULED AMORTIZATION MIDPOINT DOES APPLY TO HIGH RISK LOANS).

