FREEDOM MORTGAGE®

Mortgage insurance premiums (MIP) vs private mortgage insurance (PMI)

FHA loans have MIP. Conventional loans have PMI. Learn the differences!

Mortgage insurance premiums and private mortgage insurance help lenders offer home loans to customers who may not otherwise qualify. Mortgage insurance does this by protecting lenders against losses that may occur when a borrower defaults on a loan.

There are two kinds of mortgage insurance which sound the same but they are different. FHA loans have mortgage insurance premiums. Conventional loans have private mortgage insurance. You may be required to pay for mortgage insurance when you get a loan to purchase a house as well as when you refinance. Let's talk about the differences between MIP and PMI.

Mortgage insurance premiums for FHA loans

One important difference between the mortgage insurance requirements for FHA and conventional loans is the upfront mortgage insurance premium. Every person who buys a house with an FHA loan has to pay an upfront fee which is currently 1.75% of the purchase price of the house. That means if you buy a house that costs $250,000, you have to pay an upfront premium of $4,375. Conventional loans do not have upfront mortgage insurance premiums.

Another important difference between MIP and PMI are the monthly insurance premiums. Every person who buys a house with an FHA loan must also pay monthly insurance premiums (MIP). The cost of MIP depends on the term of your mortgage, the amount of your base loan amount, and your loan-to-value ratio (LTV). While the cost of the annual premium can vary from borrower to borrower, the annual cost of MIP generally runs between 0.45% and 1.05% of the loan amount.

The same is true when you refinance an FHA loan. You will need to pay upfront and annual mortgage insurance premiums when you refinance using an FHA loan.

Private mortgage insurance for conventional loans

Unlike FHA loans, not every person who buys a house with a conventional loan is required to pay for mortgage insurance. If you make a down payment of 20% or more, you do not need to pay for PMI. If you make a down payment of less than 20%, you will mostly likely be required to pay for private mortgage insurance by your lender.

The cost of PMI is affected by factors like your credit score and the amount of your down payment. The cost can vary from borrower to borrower and generally runs between 0.5% and 2% of the loan amount of the mortgage.

There are similar requirements when you refinance a conventional loan. You need to have 20% home equity or you will most likely be required to pay for private mortgage insurance.

How long are you required to pay for mortgage insurance?

One more important difference between MIP and PMI is the length of time you are required to pay it. If you buy a house today with an FHA loan, you will be required to pay mortgage insurance premiums for at least 11 years. If you make a down payment of less than 10%, you will need to pay MIP throughout the life of the loan. Homeowners with FHA loans sometimes refinance to a conventional loan to stop paying mortgage insurance premiums.

With a conventional loan, you only need to pay for private mortgage insurance until your home equity reaches 20%. Then you can request your lender cancel your PMI payments. Learn more about how to remove pmi from your mortgage.

Is MIP or PMI more expensive?

This question is difficult to answer because the cost of mortgage insurance premiums and private mortgage insurance differs from homebuyer to homebuyer. The amount of money you borrow has a significant impact on the cost of mortgage insurance, and you'll likely pay more if you borrow $400,000 than if you borrow $200,000. How long you will need to pay for mortgage insurance is also a significant factor in how much it will cost you over the life of the loan. Consider all the advantages and disadvantages of conventional and FHA loans when you are making your decision. See our article on conventional loans vs fha loans. Also look at our PMI vs MIP comparison table.

FHA Loans (MIP)

Government guaranteed loan: yes
Mortgage Insurance required for all loans: yes
Upfront funding fee: 1.75% of purchase price
Annual cost of mortgage insurance: varies by borrower
Years mortgage insurance required: 11 years or more for new loans

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Convention Loans (PMI)

Government guaranteed loan: no
Mortgage Insurance required for all loans: no
Upfront funding fee: none
Annual cost of mortgage insurance: varies by borrower
Years mortgage insurance required: varies by borrower

Mortgage insurance for VA loans and USDA loans

VA loans and USDA loans do not have mortgage insurance requirements. These loans do have fees that help insure the mortgage, however. When you finance a home with a VA loan, you will need to pay a one-time VA funding fee. Surviving spouses and some disabled veterans are exempt from paying this fee. When you finance a home with a USDA loan, you will need to pay an upfront guarantee fee as well as an annual fee.

Talk to Freedom Mortgage about financing a home today!

Freedom Mortgage is the #6 residential lender in the United States. Our experienced Loan Advisors will be happy to speak with you about buying or refinancing a home. Call us today at 800-220-5533 or Get Started online.

[1]. Inside Mortgage Finance, January to September 2020

NOTES & REMINDERS