



# Let National MI Be Your Guide to Cancelling Borrower-Paid Mortgage Insurance



## The Homeowners Protection Act (HPA)

The Homeowners Protection Act (HPA) of 1998 established rules for both automatic termination and borrower cancellation of Borrower-Paid Private Mortgage Insurance (BPMI) on certain home mortgages. HPA requires that BPMI be cancelled when a borrower has built up a certain amount of equity in their home. 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 lender-required automatic termination:

- Borrowers can request cancellation when the loan reaches 80% of the original value
- BPMI by law is automatically cancelled by the lender when the loan reaches 78% of the original value

### Exceptions from HPA Cancellation Requirements:

- HPA does not apply to second homes, investment properties, or multi-unit properties – it only applies to primary occupancy, single-family residences
- HPA does not apply to Lender-Paid Mortgage Insurance
- HPA does not apply to FHA MIP, which cannot be cancelled in less than 11 years



## Fannie Mae® and Freddie Mac®

Fannie Mae and Freddie Mac comply with HPA guidelines for both borrower-requested cancellation and lender-required automatic termination of BPMI that apply to loans owned or guaranteed by them, which closed on or after July 29, 1999.

In addition, Fannie Mae and Freddie Mac extended similar cancellation policies to second homes, which were not covered under HPA, with different cancellation requirements applying to loans deemed higher risk (such as different auto cancellation requirements on 2-4 unit Primary or 1-4 unit Investment Properties).

Both may allow borrower-requested cancellation based on current property value (reappraisal of property) for all property types. This provides greater flexibility as the borrower may have cancellation opportunities due to significant property appreciation.

### Cancellable Sooner than FHA

Unlike private mortgage insurance, cancellable at 78% LTV, FHA policies for borrowers with LTV ratios greater than 90% cannot be cancelled. For those with LTVs at or below 90%, FHA policies are cancellable after 11 years versus an average 5 to 7 years with National MI.

| FHA CANCELLATION COMPARISONS |                                  |                            |
|------------------------------|----------------------------------|----------------------------|
| LTV                          | NATIONAL MI                      | FHA                        |
| >90% LTV                     | 78% LTV (average 7-10 year term) | Not cancellable            |
| ≤90% LTV                     | 78% LTV (average 5-7 year term)  | Cancellable after 11 years |

(See back)



# The Homeowners Protection Act (HPA)

All loans with Borrower-Paid Mortgage Insurance (regardless of the current investor of the loan), secured by Single-Family, 1-Unit Primary Residences

## HOMEOWNERS PROTECTION ACT APPLIES ONLY TO SINGLE-FAMILY, 1-UNIT PRIMARY

### Borrower-Requested BPMI Cancellation - Based on Original Value\*

Borrower can request when loan balance is **80%** of original property value (provided borrower has a good payment history, is current on the loan and satisfies the lender's requirements to demonstrate that there is no subordinate liens on the property and the property value has not declined below its original value).

### Automatic Termination of BPMI - Based on Original Value\*\*

Automatic termination will occur on:

1 The date the mortgage balance is first scheduled to reach 78% of the original property value (termination date) if the borrower is current on their mortgage payments;

**OR**

2 If the borrower is not current as of the termination date, termination will occur on the 1st day of the 1st month after the date that the mortgage becomes current as required by the terms of the mortgage loan.

## FANNIE MAE AND FREDDIE MAC LOANS

In addition to the requirements shown below, each GSE requires the borrower to demonstrate that they are current on their mortgage payments.

### Borrower-Requested BPMI Cancellation - Based on Original Value\*

### Automatic Termination of BPMI\*\*

#### 1-Unit Primary or Second Home

#### 2-4 Unit Primary or 1-4 Unit Investment Property

#### 1-Unit Primary or Second Home

#### 2-4 Unit Primary or 1-4 Unit Investment Property

FANNIE MAE

Borrower can request when loan balance is **80%** of original property value.

Borrower can request when loan balance is **70%** of original property value.

Automatic termination on the earlier of

1 the date the mortgage balance is first scheduled to reach **78%** of the original property value;

**OR**

2 the first day of the month after the date that is the midpoint of the mortgage loan amortization period.

Automatic termination on the first day of the month after the date that is the midpoint of the mortgage loan amortization period.

FREDDIE MAC

Borrower can request when loan balance is **65%** of original property value.

Not eligible for automatic termination.

Borrower requests can be either verbally or in writing.

\* Guidance on validating that property value has not declined and borrower payment history requirements can be found in Freddie Mac Servicing Guide Sections 8203.1 through 8203.7 and 9205.11 and Fannie Mae Servicing Guide Section B-8.1-04. For borrower-requested BPMI Cancellation based on Original Value, there is no minimum seasoning requirement and the borrower may request BPMI cancellation after making a pre-payment and the reduced LTV now meets the minimum noted above.

\*\* For automatic termination of BPMI, the amortization schedule must be used to determine the BPMI cancellation point.

### Borrower-Requested BPMI Cancellation - Based on Current Value\*

#### 1-Unit Primary or Second Home

#### 2-4 Unit Primary or 1-4 Unit Investment Property

FANNIE MAE

Borrower can request when the Current LTV is:

- **≤ 75%**, if 2-5 years have elapsed since origination
- **≤ 80%**, if ≥ 5 years or more have elapsed since origination
- **≤ 80%**, if < 2 years have elapsed, **and** documented substantial property improvements\* have been made since origination

Borrower can request when loan balance is **70%** of current property value and the seasoning of the mortgage loan must be at least 2 years.

FREDDIE MAC

Borrower can request when loan balance is **65%** of current property value and the seasoning of the mortgage loan must be at least 2 years.

Borrower requests can be either verbally or in writing.

\* Guidance on substantial property improvements, methods for determining current property value and borrower payment history requirements can be found in Freddie Mac Servicing Guide Sections 8203.1 through 8203.7 and 9205.11 and Fannie Mae Servicing Guide Section B-8.1-04.

For 1-unit Primary or Second Home, minimum season requirement does not apply if the borrower provides details of substantial property improvements made since the mortgage loan's origination (e.g. kitchen and bathroom renovations, replacement of a major component such as cabinets, bathroom tile, relocation of plumbing/gas fixtures/appliances or significant structural alterations such as relocating walls or addition of square footage). Regular property maintenance repairs are not considered substantial property improvements.

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.