

**THE BASICS OF PRIVATE MORTGAGE INSURANCE PROVIDED BY THAO TINA TRAN**

Purchasing a home is a dream for most. For those who can’t afford the 20 percent down payment, private mortgage insurance (PMI) can make that dream a reality, but there are some disadvantages too. Here’s what you need to know about PMI.

PRIVATE MORTGAGE INSURANCE

If you default on your mortgage, PMI protects your financial institution from losing money.

Here’s the breakdown: if you purchase a $100,000 home and put 10 percent down ($10,000), then the lender is responsible for 90 percent ($90,000). So, $90,000 is then multiplied by 0.005 percent for an annual PMI of $450, or $27.50 per month.

In today’s market, avoiding PMI is difficult. However, even if you can’t afford to put 20 percent down when purchasing a home, there are things you can do to try and avoid PMI:

• Talk with your lender, he or she may have a less than 20 percent rule in place if you have a good credit score. • Obtain an 80-10-10 loan. On this plan, 90 percent of the loan is financed with a first mortgage equal to 80 percent of the sale price. Then, a second mortgage with a higher interest is applied for the remainder of the sale price. The monthly payments for these two mortgages are usually lower than paying one mortgage with PMI.

• Tell your lender that paying PMI is a deal-breaker for you, and that you will take your business elsewhere if it isn’t waived

**Home Considerations**

When you’re looking for a home to buy, only look at properties you can afford without putting yourself in a financial crunch. Remember, you will still need money to decorate and furnish your home, pay for an inspection and utilities, and more. All of these expenses can add up quickly, so it’s best not to stretch yourself too thin.

This article is for informational purposes only and is not intended as professional advice.

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