



# Foundations On-Demand

MI Essentials Workbook

## Introduction to MI Essentials

This class is part of a series designed to acquaint you to the mortgage banking industry and increase your knowledge of mortgage insurance.

At Radian we love Mortgage Insurance because it's a big part of what we do!

We hope by the end of this series you will get excited about MI like we do. Mortgage insurance is a powerful product that plays a great role in helping achieve the American dream of home ownership. In this series, we will give you a broad overview of mortgage insurance.

You will learn:

- What is mortgage insurance
- Why mortgage insurance is important and the benefits it can provide
- How mortgage insurance works
- How mortgage insurance can be cancelled

\*In each session, you will be provided with the guidelines most commonly used for full documentation loan file requirements.



### Watch Me!

Introduction to Mortgage  
Insurance Essentials



### Read Me!

During this course you will READ,  
WATCH and DO... make sure to  
complete all the activities & videos

*Notes:*

# Foundations On-Demand MORTGAGE INSURANCE ESSENTIALS

## What Is MI?

Mortgage insurance, also known as MI, or Private Mortgage Insurance (PMI), is a specific type of insurance that protects a lender against losses if a homeowner defaults on the payment of their mortgage loan.

Mortgage insurance allows homebuyers to put less money down when purchasing a home. It also helps reduce the risk of a high loan-to-value (LTV) loan to the lender. This makes lenders feel more comfortable when lending to a borrower who does not have 20% for a down payment.

Mortgage insurance is what makes it possible for many people to achieve the dream of homeownership.

Fill in the blanks after reviewing the example found in the video. Be sure to check your answers on the last page of the document.

**?** John and Mary are a young married couple who want to buy their own home. In the area they live in, the average home sells for about:

\$ \_\_\_\_\_

**?** To get a mortgage they would need to have a 20% down payment, which equals:

\$ \_\_\_\_\_

**?** With Mortgage Insurance, some programs allow for as low as a 3% down payment. John and Mary decided to put a 5% down payment on their home. Now they will only need to save approximately:

\$ \_\_\_\_\_



### Watch Me!

What Is MI?



### Read Me!



### Answer Me!

*Notes:*

## How Does Mortgage Insurance Work?

? Historically, we know that borrowers who put less than a 20% down exhibit more risk. Fill in the blank. Mortgage Insurance creates a \_\_\_\_\_ between the \_\_\_\_\_ and the \_\_\_\_\_. Both parties share a common interest in the mortgage financing transaction because they each stand to lose in the event of default. The borrower may lose their home and any equity invested in it, and the mortgage insurer will have to pay the lender's claim on the defaulted loan. If the losses on the home are excessive, then the other is at risk of not recovering their investment entirely.

? What is the collateral for a loan?



### Watch Me!

How Does Mortgage Insurance Work?




### Answer Me!


*Notes:*


## How Does Mortgage Insurance Work? (Cont.)

In order to get insurance from Radian, you have to be an approved lender. Radian will review the lenders' book of business before we enter into a legal agreement.

 What is the legal agreement called?

Radian will enter into a legal agreement to insure loans for lenders who treat our risk like their risk.

 Who pays for the premium for the mortgage insurance coverage?

 Who is the beneficiary of the mortgage insurance?



**Read Me!**



**Answer Me!**

*Notes:*

## How Does Mortgage Insurance Work? (Cont.)

Here is a very simplified version of the Mortgage Insurance process flow behind the scenes. There are many variations to how this process can work, but this will give you a general concept.



**Read Me!**

### The MI Process



Radian Account Managers across the country can help educate you on our products and the best option for the lender's borrower.

*Notes:*

## What happens When a Borrower Defaults on a Loan?

Mortgage insurance is a benefit that comes into play when the borrower defaults on their loan and it looks like they won't be able to recover.

- ? When a borrower defaults on a loan, what type of payments does mortgage insurance cover?
- ? When can a lender submit a claim to have the mortgage insurance company reimburse them?
- ? In what ways can a Mortgage Insurance company help minimize losses for the lender and the borrower?
- ? Under what circumstances would a mortgage insurance company offer a partial claim?



### Watch Me!

What Happens When A Borrower Defaults On A Loan?



### Answer Me!


*Notes:*

## What happens When a Borrower Defaults on a Loan?

So how does the claim process with mortgage insurance work?

Until the lender sells the property, they don't know if they will or won't get all of their investment back. It will depend on how well the home's value has held up, but it also depends on how much insurance "coverage" they bought.

 Who takes the first loss?

 Who takes the second loss?

### Example:

Sales price of property	\$300,000
Loan Amount	\$285,000
Borrowers equity @ 5%	\$15,000
MI coverage @ 30%	\$85,500

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**Initial loss 35%                      \$100,500**

The house would have to depreciate to roughly **\$200,000** for the lender to take a loss.



**Answer Me!**

*Notes:*



# What happens When a Borrower Defaults on a Loan?

Here is how a claimed is determined:

<b>Original Sales Price</b>	<b>\$300,000</b>
Loan Amount	\$285,000
LTV	95%
A few years later...	
Loan Balance	\$284,000
Real Estate Commission	\$4,000
Accumulated Interest	\$5,000
Attorney Fees	\$3,000
Hazard Insurance	\$500
Property Taxes	\$2,700
Property Maintenance	\$800
<b>TOTAL</b>	<b>\$300,000</b>

The following outlines what would be paid on a claim:

Home Sales Price	\$280,000
Total Expenses	\$300,000
Loss on Sale	\$(20,000)

Lender submits claim for \$300,000

Multiply by 30% MI coverage \$90,000



**Read Me!**

*Notes:*

## MI Cancellation

Cancellation is something that Radian, the Mortgage Insurance company, has no control over.

### What is the law called?

This act is what mandates the rules of MI cancellation on primary residences. When a borrower sells or refinances their primary residence property, the loan is paid in full and the lender cancels the MI.

### Fill in the blank

This act requires MI to be automatically cancelled when the principle balance of the mortgage is scheduled to reach \_\_\_\_\_% of the original value.

The borrower must submit a written request to the servicer when the principal balance of their primary residence mortgage is scheduled to reach this percentage of the original value (defined by the lesser of the sales price or appraised value).

In order to qualify for cancellation, the borrower must have a perfect payment history, the property can not have declined below the original value, and a certification that the borrower's equity in the property must not be subject to a subordinate lien.



### Watch Me!

MI Cancellation



### Answer Me!

*Notes:*