

# How to overcome a low appraisal with mortgage insurance from MGIC

**Meet Jill and John.** In a very hot market, they finally had the winning bid on a great house. They plan to put down 20% to avoid private mortgage insurance (MI).

## How they expect the transaction to go

Listing price	\$380,000
Purchase price	\$400,000
20% down payment	\$80,000
Monthly mortgage payment (P&I) <sup>1</sup>	\$1,437

## The dreaded appraisal gap

Unfortunately, the appraisal comes in at the original asking price of \$380,000. Do Jill and John have the extra funds to cover the difference? In this case, they'd need \$16,000 more than the original \$80,000 they planned to put down.<sup>2</sup>

## Another solution: Private mortgage insurance

By accepting a higher loan-to-value (LTV) and using MGIC MI, Jill and John could reap the following benefits:

- 1 No need to come up with additional funds up front
- 2 Closing costs may be comparable depending on the MI program
- 3 Monthly mortgage payment will be similar to original expectations
- 4 .25% decrease in the loan-level price adjustment (LLPA) or credit fee charged by Fannie Mae or Freddie Mac and other investors by moving from 80% LTV to 85% LTV<sup>3</sup>

## Compare options: See how MGIC's Borrower-Paid Mortgage Insurance (BPMI) can help

\$400,000 Purchase price	Jill and John's original expectation (20% down)	Low appraisal, additional down payment	Low appraisal with MGIC MI		
			BPMI single premium paid at closing	BPMI single premium financed	BPMI monthly
Appraised value	\$400,000	\$380,000	\$380,000	\$380,000	\$380,000
Down payment	\$80,000	\$96,000	\$80,000	\$80,000	\$80,000
Loan amount	\$320,000	\$304,000	\$320,000	\$321,408	\$320,000
MI premium <sup>4</sup>	n/a	n/a	\$1,408	\$1,408	\$43/month
GSE LLPA/Credit fee decrease <sup>3</sup>	n/a	n/a	(\$800)	(\$800)	(\$800)
<b>Additional cost at closing</b>	<b>n/a</b>	<b>\$16,000</b>	<b>\$608</b>	<b>(\$800)</b>	<b>(\$800)</b>
Monthly MI	\$0	\$0	\$0	\$0	\$43
<b>Monthly P&amp;I + MI</b>	<b>\$1,437</b>	<b>\$1,365</b>	<b>\$1,437</b>	<b>\$1,443</b>	<b>\$1,480</b>

<sup>1</sup> Assumes a 3.5% interest rate on a 30-year fixed loan of \$320,000.

<sup>2</sup> \$20,000 difference in purchase price and appraised value + \$76,000 to bring loan amount to 80%LTV.

<sup>3</sup> For all mortgages except Fannie Mae's HomeReady® and Freddie Mac's Home Possible® loans.

<sup>4</sup> MI rates as of 06/1/21. Assumes owner-occupied, primary residence; 2 borrowers; in 53201 zip code. Find your right rate, right now at mgic.com/MIQ.

Example is for illustrative purposes and meant only for mortgage and real estate professionals. Assumes a credit score of 760 and a debt-to-income ratio of 35%.

To learn more about this strategy and other MI Solutions, contact your MGIC representative or visit [mgic.com](http://mgic.com).

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