THE WINNING BID

How to overcome a low appraisal with private mortgage insurance

Meet Jasmine and John. In a very hot market, they finally had the winning bid on a great house. The listing price was $380,000, but they offered $400,000 to beat the competition. They plan to put down 20% to avoid private mortgage insurance (MI), which would mean a monthly mortgage payment (P&I)[1] of $1,437.

The dreaded appraisal gap

Unfortunately, the appraisal comes in at the original asking price of $380,000. Do Jasmine 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.[2]

Another solution: Private mortgage insurance

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

- No need to come up with additional funds up front
- Closing costs may be comparable depending on the MI program
- Monthly mortgage payment will be similar to original expectations
- .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[3]

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

$400,000 Purchase price	**Jasmine and John's original expectation (20% down)**	**Low appraisal, with an additional down payment**	**Low Appraisal with MGIC BPMI single premium paid at closing**	**Low Appraisal with MGIC BPMI single premium financed**	**Low Appraisal with MGIC 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	$321,312	$320,000
LTV	80%	80%	85%	85%	85%
MI premium[4]	n/a	n/a	$1,312	$1,312	$37/month
GSE LLPA/Credit fee decrease[3]	n/a	n/a	($800)	($800)	($800)
Additional cost at closing	**n/a**	**$16,000**	**$512**	**($800)**	**($800)**
Monthly MI	$0	$0	$0	$0	$37
Monthly P&I + MI	**$1,437**	**$1,365**	**$1,437**	**$1,443**	**$1,474**

[1] Assumes a 3.5% interest rate on a 30-year fixed loan of $320,000. [2] $20,000 difference in purchase price and appraised value + $76,000 to bring loan amount to 80% LTV. [3] For all mortgages except Fannie Mae's HomeReady® and Freddie Mac's Home Possible® loans. [4] MI premium based on rates as of 8/17/21 for Milwaukee, WI. **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 owner-occupied, primary residence; 2 borrowers with 760 credit scores, 35% DTI ratio and 25% housing ratio.

To learn more about this strategy and other MI Solutions, contact your MGIC representative or go to rethinkMI.com.

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