



How to overcome a low appraisal with private mortgage insurance

THE WINNING BID

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 \$1,718.

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% LTV³

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	\$29/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	\$29
Monthly P&I + MI	\$1,718	\$1,632	\$1,718	\$1,725	\$1,747

¹ Assumes a 5.0% 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 4/6/22 for Milwaukee, WI. **Find your right rate, right now at [mgic.com/MIQ](https://www.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.**