FAQ: MI CANCELLATION UNDER THE HOMEOWNERS PROTECTION ACT AND REFUNDABLE VS. NON-REFUNDABLE PREMIUM

Among other notice and disclosure requirements, the Homeowners Protection Act of 1998 ("HPA" or, the "Act") requires lenders to cancel mortgage insurance and refund premium under certain circumstances. United Guaranty recognizes the importance of properly canceling mortgage insurance and refunding premium in accordance with the HPA and is providing the following information to help its MI partners with their compliance efforts.

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1. When is a Lender required to cancel mortgage insurance under the HPA?

- A borrower in good standing[1] may initiate cancellation of MI coverage when the principal balance of the loan is first scheduled to reach 80% of the original value so long 1) as the borrower is current on the loan, 2) the value of the property has not declined below the original value, and 3) the borrower's equity in the property is not subject to a subordinate lien.

- A servicer must automatically terminate MI for **residential mortgage transactions** when the principal balance of the mortgage is first scheduled to reach 78% of the original value and the borrower is current on mortgage payments.

- If not terminated by borrower request or automatic termination, final termination is required at the midpoint of the loan's amortization period if, on that date, the borrower is current on mortgage payments.

[1] A borrower is in good standing if there are no 0x60 late payments within the first 12 months of the last 24 months prior to the later of the cancellation date, or the date that the borrower requests cancellation, and 0x30 within months 13–24.

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2. Does a Lender have to cancel mortgage insurance on second homes or investment properties?

- The HPA only applies to **residential mortgage transactions**, which is defined under the Act as the purchase, initial construction, or refinance of loans secured by single family primary residences. The HPA does not require cancellation of mortgage insurance on second homes or investment properties.

- However, for loans sold to Fannie Mae, the Fannie Mae Single Family 2012 Servicing Guide requires cancellation on both principal residences and second homes, but does not require cancellation with respect to investment properties.

- Finally, “protected” state law may provide greater protections than available under the HPA. While the HPA generally preempts state law, the cancellation laws of eight states were deemed “protected” under the Act. Under this provision, a state law that provides equal or greater protection to a borrower (by requiring the termination of MI either at an earlier time or at a higher mortgage principal balance than the federal standard) is considered a "protected state law" and will continue to be valid to the extent it is not inconsistent with the HPA. Any provisions of state law that are inconsistent with the federal statute are superseded. For example, the New York cancellation law[2] provides broader protection and requires cancellation on “authorized real estate security,” which includes both primary and secondary residences.

3. Does lender-paid mortgage insurance (“LPMI”) have to be cancelled?

- No, LPMI does not have to be cancelled under the Act. The HPA only requires the disclosure of LPMI, which must state, among other things, that LPMI cannot be cancelled by the borrower and that LPMI typically carries a higher interest rate than borrower-paid insurance.

4. When the MI coverage is cancelled on a loan, does the MI Company have to refund any premium?

- Yes. The mortgage guaranty insurance company is required to refund any unearned premium to the lender/customer within 30 days after notification of cancellation.

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[2] NY Ins. Section 6503(d)

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5. How does the HPA apply to refundable vs. non-refundable borrower paid single premium plans?

- The HPA applies equally to refundable and non-refundable plans and requires borrower paid mortgage insurance be automatically terminated by the lender when (1) the loan balance reaches 78%, based on the original amortization schedule, and (2) the borrower is current on mortgage payments. The mortgage insurer is required to refund any unearned premium, regardless of whether the premium plan is titled “refundable” or “non-refundable.”

- The difference between refundable vs. non-refundable BPMI singles is whether the MI company is required to refund a portion of the premium when the insurance is cancelled for prepayment, e.g., the loan is refinanced. This is considered a non-HPA cancellation. If the loan prepays, there will be a refund under a refundable premium plan, and there will be no refund under the non-refundable plan. We have HPA cancellation schedules and non-HPA cancellation schedules on our website at: https://www.ugcorp.com/mi_tools/cancellation_refund.html

6. Why does United Guaranty only have a refundable borrower-paid monthly insurance premium plan?

- United Guaranty only offers refundable borrower-paid monthly insurance premium plans to avoid confusion and ensure ease of use for our customers. Please note, however, that when the premium is paid in arrears, United Guaranty earns that premium immediately and no refund would be generated under any prepayment cancellation scenario.

7. It is acceptable to United Guaranty for a lender to submit a loan for mortgage insurance as a borrower-paid single to get a BPMI rate and then give a corresponding lender credit to the borrower (up to allowable contribution amount) that, in effect, is applied to the mortgage insurance premium, so long as the transaction is properly disclosed on the applicable closing documentation?

- Yes, this is acceptable from United Guaranty’s perspective. However, the issue that customers will have to resolve for themselves is whether to treat this as lender-paid mortgage insurance or borrower-paid mortgage insurance. The cancellation and disclosure requirements under the HPA differ depending on whether the insurance is classified as lender-paid or borrower-paid mortgage insurance.

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