



# How to overcome a low appraisal with private mortgage insurance

**SAVING THE DEAL**

**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)<sup>1</sup> of \$2,129.

## The dreaded appraisal gap

Unfortunately, the appraisal comes in at the original asking price of \$380,000. Jasmine and John are not comfortable depleting their remaining savings and reserves 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 one of these MGIC MI options, Jasmine and John can save the deal – without a significant impact on either the funds due up front or their monthly mortgage payment.

- **BPMI Single Premium paid at closing:** Pay just an additional \$960 at closing instead of \$16,000, with no impact to their monthly mortgage payment
- **BPMI Single Premium financed into loan:** No additional funds at closing, pay just an additional \$6 per month
- **BPMI Monthly Premium:** No additional funds at closing; pay just an additional \$26 per month; MI can likely be cancelled in 5 years or less, depending on local home appreciation

## 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 MGIC BPMI Single Premium paid at closing	Low appraisal with MGIC BPMI Single Premium financed	Low appraisal with MGIC BPMI Monthly Premium
Appraised value	\$400,000	\$380,000	\$380,000	\$380,000
Down payment	\$80,000	\$80,000	\$80,000	\$80,000
Loan amount	\$320,000	\$320,000	\$320,960	\$320,000
LTV	80%	84.2%	84.5%	84.2%
MI premium <sup>3</sup>	n/a	\$960	\$960	\$27/month
Monthly MI	\$0	\$0	\$0	\$27
<b>Monthly P&amp;I + MI</b>	<b>\$2,129</b>	<b>\$2,129</b>	<b>\$2,135</b>	<b>\$2,155</b>

<sup>1</sup>Assumes a 7% interest rate on a 30-year fixed-rate loan of \$320,000. <sup>2</sup>\$20,000 difference in purchase price and appraised value + \$76,000, for a total of \$96,000, to bring loan amount to 80% LTV. <sup>3</sup>MI premium based on rates as of 5/28/24 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, 28% 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](https://www.rethinkMI.com).**