NATIONAL ASSOCIATION OF REALTORS®

CONSUMER GUIDE: DO YOU NEED PRIVATE MORTGAGE INSURANCE?

When you're buying a home for the first time, there are plenty of new terms to learn. One that can cause confusion is *private mortgage insurance, or PMI*. PMI is an insurance policy that protects the lender in case you default on the loan. You'll likely be required to purchase PMI if you are buying a home using a conventional mortgage and you are putting down less than 20% of the purchase price.

How does it work?
Your lender will arrange for the PMI policy as part of your conventional loan. PMI is usually offered by private mortgage insurance companies. Most often, you pay the cost as part of your monthly mortgage payment. Some lenders may offer the option to pay a lump sum at closing to cover the PMI, or a combination of an upfront fee and monthly payments.

How much does PMI cost?
The cost varies based on factors such as your loan amount, down payment amount, credit score and mortgage type (fixed vs. adjustable rate). Typically, it can range from 0.2% to 2% of your loan amount each year. Freddie Mac's private mortgage insurance calculator helps you determine the monthly PMI you'd typically pay with a 5%, 10% or 15% down payment.

Can you avoid PMI?
Yes. If you put down 20% or more of the purchase price, you do not need PMI. Other options that avoid PMI include getting a VA or USDA loan (if eligible), lender-paid mortgage insurance (LPMI), or a piggyback loan (taking out a second loan to meet the 20% down payment amount). However, all of these come at a cost, so the options should be carefully considered.

Can you cancel PMI insurance?
Yes. When your principal balance (the amount you owe on your mortgage), falls to 80% or below of the original home value, you can request that your lender cancel the policy. If your home has increased in value, you may be able to meet the 20% equity requirement sooner by getting your home reappraised or refinancing your loan. Lenders are required to automatically cancel PMI when your loan-to-value (LTV) ratio reaches below 78% or you are halfway through the loan term, whichever comes first. It's a good idea to be proactive and check with your lender when you feel you are at that point. *Note:* Loans insured by the Federal Housing Administration (FHA loans) require an upfront mortgage insurance premium (MIP) and an annual MIP that stays for the life of the loan.

How does the One Big Beautiful Bill Act impact PMI?
On July 4, 2025, the One Big Beautiful Bill Act was signed into law and included a number of tax law changes related to homeownership. It makes permanent the deductibility of mortgage interest paid on up to $750,000 in qualified indebtedness ($375,000 for those married filing separately) and temporarily quadruples the state and local tax deduction. **Beginning in 2026, the law also allows taxpayers to deduct PMI as part of their mortgage interest deduction.** However, the PMI deduction isn't available to everyone: PMI can be fully deductible for those with not more than $100,000 in adjusted gross income ($50,000 for those married filing separately) and then is phased out. The deduction is fully eliminated for adjusted gross incomes exceeding $109,000 (for joint returns). And all these deductions are available only to taxpayers who itemize rather than claiming the standard deduction. Consult a qualified tax professional to determine the best tax strategy for your situation.

Your real estate agent can help you navigate the purchase of a home; consult an attorney for guidance on the laws in the state where you're purchasing. And remember: Agents who are REALTORS® are obligated under NAR's Code of Ethics to work in your best interest. Please visit facts.realtor for more information and resources.