MORTGAGE INSURANCE ESSENTIALS
Answer Key

Now that you have watched the MI Essentials video series, it's time to review your answers.

What is Mortgage Insurance?

You answered this question while watching the *What is Mortgage Insurance?* video.
Check your answers below.

Fill in the blank:

John and Mary are a young married couple who want to buy their own home. In the area they live in, the average home sells for about **$300,000**. *To get a mortgage they would need to have a 20% down payment, which equals* **$60,000**. *With Mortgage Insurance, some programs allow for as low as a 3% down payment. John and Mary decided to put a 5% down payment on their home. Now they will only need to save approximately:* **$15,000**.

How Does Mortgage Insurance work?

You answered these questions while watching the *How Does Mortgage Insurance work?* video.
Check your answers below.

Fill in the blank:

Mortgage Insurance creates a **risk sharing relationship** *between the* **borrower** *and the* **lender**.

Q: What is the collateral for the loan?

A. The house/property

Q:What is the legal agreement called?

A: Master Policy

Q: Who is the beneficiary of the mortgage insurance?

A: The lender

What happens when a borrower defaults on a loan?

You answered these questions while watching *the What happens when a borrower defaults on a loan?* video.
Check your answers below.

Q: When a borrower defaults on a loan, what does Mortgage Insurance cover?

A. MI pays a claim if the loan goes to foreclosure and the sales price of the house will not cover the current debt

Q: When can a lender submit a claim to have the Mortgage Insurance company reimburse them?

A: When the loan goes into foreclosure and the property has been sold

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Q: In what ways can a Mortgage Insurance company help minimize losses for the lender and the borrower?

A: Sell the home for less than what they owe and cover the difference

What happens when a borrower defaults on a loan? (cont.)

Q: Under what circumstances would a Mortgage Insurance company offer a partial claim?
A:Disability or Unemployment

Q. Who takes the first loss?
A: The borrower

Q: Who takes the second loss?
A: The mortgage insurance company

Fill in the blank:
Lenders typically buy **12%**, **25%** *or* **30%** *of coverage based on the loan to value.*

Fill in the blank:
The lower the **down payment***, the higher the* **mortgage insurance coverage***.*

MI Cancellation

You answered these questions while watching the *MI Cancellation* video.
Check your answers below.

Q: What is the law called?
A: HPA (Homeowners Protection Act) of 1998 or PMI Cancellation Act

Fill in the blank:

This act requires MI to be automatically canceled when the principal balance of the mortgage is scheduled to reach **80%** *of the original value.*