Chapter 7. Mortgage Insurance Premiums (MIP)

1. Types of Mortgage Insurance Premiums (MIP)

Introduction
This topic contains information on the types of mortgage insurance premiums (MIP), including

- the purpose of MIP
- types of MIP, and
- locating additional information on MIP.

Change Date
November 19, 2010

4155.2 7.1.a Purpose of MIP
Mortgage insurance premiums (MIP) are used to protect lenders against loss in the event of a foreclosure.

4155.2 7.1.b Types of MIP
For most of its mortgage insurance programs, FHA collects an

- upfront mortgage insurance premium (UFMIP), and
- annual insurance premium, which is collected in monthly installments.

Note: The monthly premium varies by program, and based on the outstanding principal balance.

References: For more information on

- UFMIPs, see HUD 4155.2 7.2, and
- annual MIP, see HUD 4155.2 7.3.

4155.2 7.1.c Locating Additional Information on MIP (Reference)
For more information on MIP, see

- 24 CFR 203.18c
- 24 CFR 203.259 – 203.288, and
- ML 2008-22.
2. Upfront Mortgage Insurance Premiums (UFMIP)

**Introduction**

This topic contains information on upfront mortgage insurance premiums (UFMIP), including:

- the UFMIP amount
- the FHA policy on UFMIP payment
- UFMIP late fees and interest
- verification of UFMIP payment prior to insurance
- UFMIP refunds
- the UFMIP 5 year refund schedule
- the UFMIP 7 year refund schedule
- cases not endorsed after 18 months, and
- the elimination of UFMIP refunds.

**Change Date**

March 1, 2011
Effective for loans with case numbers assigned on or after October 4, 2010, FHA has lowered its upfront mortgage insurance premium (UFMIP) for:

- purchase money transactions, and
- refinance transactions, including
  - FHA-to-FHA credit-qualifying refinances, and
  - non-credit qualifying streamlined refinance transactions.

**Exception:** The upfront premium changes apply to all mortgages insured under FHA’s Single Family Insurance Programs except the following:

- Section 223(e), Declining Neighborhoods
- Section 238(c), Military Impact Areas in Georgia and New York
- Section 247, Hawaiian Homelands
- Section 248, Indian Reservations
- Section 255, Home Equity Conversion Mortgages (HECM)
- Title I, and
- HOPE for Homeowners (H4H).

The upfront premium is charged for all amortization terms as described in the table below.

<table>
<thead>
<tr>
<th>MORTGAGE TYPE</th>
<th>UPFRONT PREMIUM REQUIREMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Money Mortgages and Full Credit Qualifying Refinances</td>
<td>100 BPS</td>
</tr>
<tr>
<td>Streamline Refinances (all types)</td>
<td>100 BPS</td>
</tr>
</tbody>
</table>

**Reference:** For information on MIP payment for HECMs, see HUD 4155.2 1.C.17.d, and ML 10-34.

*Continued on next page*
2. Upfront Mortgage Insurance Premiums (UFMIP), Continued

The UFMIP remittance period begins on the date of loan settlement or the date of disbursement of the mortgage proceeds, whichever is later. Lenders must pay the UFMIP to FHA in a lump sum within 10 calendar days after a loan has closed.

The table below describes how the lender determines the mortgage amount based on whether the UFMIP is financed into the mortgage or paid in cash.

<table>
<thead>
<tr>
<th>If the UFMIP is...</th>
<th>Then the mortgage amount must be...</th>
</tr>
</thead>
<tbody>
<tr>
<td>entirely financed into the mortgage</td>
<td>rounded down to a whole dollar.</td>
</tr>
<tr>
<td>Exception: If the borrower chooses to pay up to $49.99 of the UFMIP in cash, the UFMIP is not reflected in the total mortgage amount.</td>
<td></td>
</tr>
<tr>
<td>paid entirely in cash</td>
<td>rounded down to a multiple of $1.00.</td>
</tr>
</tbody>
</table>

The mortgage amount must be rounded down to a multiple of $1.00, regardless of whether the UFMIP is financed or paid in cash.

The UFMIP amount, that is the total mortgage amount, is not considered when determining compliance with statutory loan limits or loan-to-value (LTV) limits. The base mortgage amount must comply with the requirements. The total mortgage amount may exceed the limit by the financed UFMIP amount.

**Note:** Any UFMIP amounts paid in cash are added to the total cash settlement amount.

**References:** For information on annual MIP for mortgages with terms more than 15 years, see HUD 4155.2 7.3.e and less than 15 years, see HUD 4155.2 7.3.f.
2. **Upfront Mortgage Insurance Premiums (UFMIP), Continued**

**4155.2 7.2.c**  
**UFMIP Late Fees and Interest**  

The lender incurs a late fee if it pays the **UFMIP** beyond the FHA allowable number of days after closing.

If the **UFMIP** is paid more than 30 days after closing, the lender is assessed a late fee plus interest and must pay both charges before FHA will endorse the mortgage for insurance.

FHA reserves the right to take appropriate enforcement measures against lenders that remit **UFMIP** late, regardless of the lenders’ payment of late fees and interest.

**4155.2 7.2.d**  
**Verification of UFMIP Payment Prior to Insurance**  

For those cases requiring payment of a **UFMIP**, FHA’s Computerized Homes Underwriting Management System (CHUMS) verifies whether a lender has paid a sufficient **UFMIP**. If the **UFMIP** amount received by FHA is not sufficient, the case cannot be insured.

**4155.2 7.2.e**  
**UFMIP Refunds**  

Borrowers are entitled to a partial refund of the **UFMIP** paid at closing if their loan

- closed on or after January 1, 2001, and they were paying off (or refinancing) their FHA loan within 5 years from the date of closing, or
- closed on or after January 1, 1994, but before January 1, 2001, and they were paying off (or refinancing) their FHA loan within 7 years from the date of closing.

If the borrower is refinancing his/her current FHA loan to another FHA loan within 3 years, a refund credit may be applied to reduce the amount of the UFMIP paid on the refinanced loan.

**Reference**: For more information on

- specific **UFMIP** earnings factors and the
  - 5 year **UFMIP** refund schedule, see HUD 4155.2 7.2.f, and
  - 7 year **UFMIP** refund schedule, see HUD 4155.2 7.2.g, and
- **UFMIP** and annual **MIP** amounts, see
  - HUD 4155.2 7.3.e, and
  - HUD 4155.2 7.3.f.

Continued on next page
2. Upfront Mortgage Insurance Premiums (UFMIP), Continued

Below is the 5 year UFMIP refund schedule with UFMIP earnings factors.

<table>
<thead>
<tr>
<th>Year</th>
<th>Month of Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.975 0.950 0.925 0.900 0.875 0.850 0.83 0.816 0.800 0.783 0.766 0.750</td>
</tr>
<tr>
<td>2</td>
<td>0.733 0.716 0.700 0.683 0.666 0.650 0.633 0.616 0.600 0.583 0.566 0.550</td>
</tr>
<tr>
<td>3</td>
<td>0.533 0.516 0.500 0.483 0.466 0.450 0.433 0.416 0.400 0.383 0.366 0.350</td>
</tr>
<tr>
<td>4</td>
<td>0.333 0.316 0.300 0.283 0.266 0.250 0.233 0.225 0.212 0.200 0.173 0.175</td>
</tr>
<tr>
<td>5</td>
<td>0.162 0.150 0.137 0.125 0.112 0.100 0.083 0.066 0.050 0.033 0.016 0.000</td>
</tr>
</tbody>
</table>

Below is the 7 year UFMIP refund schedule with UFMIP earnings factors.

<table>
<thead>
<tr>
<th>Year</th>
<th>Month of Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.991 0.983 0.975 0.966 0.958 0.950 0.941 0.933 0.925 0.916 0.908 0.900</td>
</tr>
<tr>
<td>2</td>
<td>0.891 0.883 0.875 0.866 0.858 0.850 0.841 0.833 0.825 0.816 0.808 0.800</td>
</tr>
<tr>
<td>3</td>
<td>0.783 0.775 0.774 0.771 0.770 0.768 0.764 0.760 0.755 0.750 0.745 0.740</td>
</tr>
<tr>
<td></td>
<td>5</td>
</tr>
<tr>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>4</td>
<td>0.584</td>
</tr>
<tr>
<td>5</td>
<td>0.372</td>
</tr>
<tr>
<td>6</td>
<td>0.206</td>
</tr>
<tr>
<td>7</td>
<td>0.077</td>
</tr>
</tbody>
</table>

Continued on next page
2. Upfront Mortgage Insurance Premiums (UFMIP), Continued

4155.2 7.2.h Cases Not Endorsed After 18 Months

If a case is not endorsed within 18 months of closing/payment of the UFMIP, the lender is warned, by mail, of a pending refund and is advised to take action on the case.

If the lender

• takes no action, which means that it does not wish to seek insurance, the system generates a refund, or
• wishes to take action and seek insurance, the lender is required to contact its MIP representative for instructions on re-applying the refund.

After the funds have been re-applied, the lender must contact the Homeownership Center (HOC) and request that the case be reinstated. After reinstatement of the case, the lender must forward the case to the appropriate HOC for insuring.

4155.2 7.2.i Elimination of UFMIP Refunds

Effective for those mortgages endorsed for insurance on or after December 8, 2004, Section 223 of the Consolidated Appropriations Act 2005 amended Section 203(c)(2)(A) of the National Housing Act to eliminate refunds of the UFMIP except when a borrower refinances to another mortgage to be insured by FHA.

The refund schedule for those borrowers who refinance to another FHA-insured mortgage is modified to a 3 year time period, as shown in the table below.

<table>
<thead>
<tr>
<th>Upfront Mortgage Insurance Premium Refund Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month of Year</td>
</tr>
<tr>
<td>Year</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
</tbody>
</table>
3. Annual Mortgage Insurance Premiums (MIP)

Introduction

This topic contains information on annual mortgage insurance premiums (MIP), including:

- annual MIP payment policy
- assessment of late fees and interest charges
- automatic cancellation of the annual MIP
- determining when a borrower has reached the loan-to-value (LTV) ratio for annual MIP cancellation
- UFMIP and annual MIP for mortgages with terms more than 15 years
- UFMIP and annual MIP for mortgages with terms less than 15 years, and
- example of annual MIP increase.

Change Date

March 1, 2011

Continued on next page
3. Annual Mortgage Insurance Premiums (MIP), Continued

In addition to the UFMIP described in HUD 4155.2 7.2, certain mortgages require the payment of an annual premium. The amount of the annual premium is based on the loan-to-value (LTV) ratio and the term of the mortgage.

For programs that require a monthly MIP, FHA must receive payment by the 10th of the month.

Effective April 18, 2011, FHA has increased annual MIPs for forward mortgage amortization terms by 25 basis points.

**Exception:** This increase applies to all mortgages insured under FHA’s Single Family Mortgage Insurance Programs except:

- Section 223(e), Declining Neighborhoods
- Section 238(c), Military Impact Areas in Georgia and New York
- Section 247, Hawaiian Homelands
- Section 248, Indian Reservations
- Section 255, Home Equity Conversion Mortgages (HECM)
- Title I, and
- HOPE for Homeowners (H4H).

If the monthly MIP payment is received

- after the 10th of the month, the lender is assessed a late charge, and
- 30 days or more after loan closing, the lender is assessed interest charges in addition to the late fee.

*Continued on next page*
3. Annual Mortgage Insurance Premiums (MIP), Continued

For loans closed on or after January 1, 2001, FHA’s annual MIP is automatically cancelled under the conditions outlined in the table below.

**Note:** This MIP cancellation provision only applies to loans with a UFMIP.

<table>
<thead>
<tr>
<th>For mortgages with ...</th>
<th>The annual MIP is ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>terms <em>more</em> than 15 years</td>
<td>cancelled when the LTV ratio reaches 78%, provided the borrower has paid the annual MIP for at least five years.</td>
</tr>
<tr>
<td><strong>References:</strong></td>
<td></td>
</tr>
<tr>
<td>For information on how FHA determines when a borrower has reached the 78% LTV ratio, see HUD 4155.2 7.3.d.</td>
<td></td>
</tr>
<tr>
<td>For more information on UFMIP and annual MIP for mortgages with terms <em>more</em> than 15 years, see HUD 4155.2 7.3.e.</td>
<td></td>
</tr>
<tr>
<td>terms 15 years and less, and LTV ratios 90% and greater</td>
<td>cancelled when the LTV ratio reaches 78%, regardless of the length of time the borrower has paid the annual MIP.</td>
</tr>
<tr>
<td><strong>Reference:</strong> For more information on UFMIP and annual MIP for mortgages with terms <em>less</em> than 15 years, see HUD 4155.2 7.3.f.</td>
<td></td>
</tr>
</tbody>
</table>
3. Annual Mortgage Insurance Premiums (MIP), Continued

4155.2 7.3.c Automatic Cancellation of the Annual MIP (continued)

<table>
<thead>
<tr>
<th>For mortgages with ...</th>
<th>The annual MIP is ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>terms 15 years and less, and LTV ratios of 89.99% and less</td>
<td>not charged.</td>
</tr>
</tbody>
</table>

**Notes:**
- Although the annual MIP is cancelled as described above, the contract of insurance remains in force for the loan’s full term.
- Cancellation of the annual MIP is normally based on the scheduled amortization of the loan. However, in cases where the loan payments have been accelerated or modified, cancellation can be based on the actual amortization of the loan as provided to FHA by the servicing lender.
- Mortgage insurance may be terminated via payment in full, conveyance for insurance benefits, or voluntary termination upon agreement between the borrower and lender.

**Reference:** For more information on MIP cancellation and how FHA determines when a borrower has reached the 78% LTV ratio, see HUD 4155.2 7.3.d.

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3. Annual Mortgage Insurance Premiums (MIP), Continued

### Determining When a Borrower Has Reached the LTV Ratio for Annual MIP Cancellation

FHA determines when a borrower has reached the 78% LTV ratio based on the lesser of the
- sales price, or
- appraised value at origination (new appraised values will not be considered).

**Example:** If the lesser of the sales price or appraised value at origination is $100,000, when the loan amount reaches $78,000 FHA no longer collects an annual MIP on the loan.

**Reference:** For additional information on LTV ratios, see HUD 4155.1 2.A.

### UFMIP and Annual MIP for Mortgages With Terms More Than 15 Years

For traditional purchase and refinance products, the annual premium is remitted on a monthly basis, and is charged on the initial LTV ratio and the length of the mortgage according to the schedule in the table below.

The table below contains UFMIP and annual MIP information for mortgages with terms more than 15 years.

<table>
<thead>
<tr>
<th>Mortgage Insurance Premiums</th>
<th>Loans ≥ 15 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>UFMIP = 100 bps</td>
<td>Annual Premium</td>
</tr>
<tr>
<td>≤ 95.00%</td>
<td>85 bps</td>
</tr>
<tr>
<td>&gt; 95.00 %</td>
<td>90 bps</td>
</tr>
<tr>
<td>≤ 90.00%</td>
<td>None</td>
</tr>
<tr>
<td>&gt; 90.00%</td>
<td>25 bps</td>
</tr>
</tbody>
</table>

*Continued on next page*
### Example: Annual MIP Increase

The table below provides an example of the change/increase in the annual MIP calculation.

<table>
<thead>
<tr>
<th>Average Loan</th>
<th>Example of Annual Mortgage Insurance Premium Increase</th>
<th>30 year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>□ 95% LTV</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>October 2010</td>
<td>90 bps</td>
<td>April 2011</td>
</tr>
<tr>
<td>Sales Price</td>
<td>$163,000</td>
<td>$163,000</td>
</tr>
<tr>
<td>Minimum Down payment (3.5%)</td>
<td>$5,705</td>
<td>$5,705</td>
</tr>
<tr>
<td>Mortgage Amount without UFMIP</td>
<td>$157,295</td>
<td>$157,295</td>
</tr>
<tr>
<td>FHA Annual MIP (monthly payment)</td>
<td>$118</td>
<td>$151</td>
</tr>
<tr>
<td>Change in payment (monthly)</td>
<td>---</td>
<td>$33</td>
</tr>
</tbody>
</table>
4. Risk Based Premiums for FHA Mortgage Insurance

Change Date

May 10, 2009

4155.2 7.4.a FHA Policy on Risk Based Premiums

FHA implemented risk based premiums on one to four unit single family mortgages effective with new FHA case number assignments on or after July 14, 2008. The premiums were based solely on the prospective borrower’s credit bureau score and the loan-to-value ratio.

Effective October 1, 2008, however, FHA announced a moratorium on the implementation of the risk based premium policy.

References: For more information on
• risk based premiums for loans originated between July 14, 2008 and October 1, 2008, see ML 08-16, and
• the moratorium on the risk based premium policy, see ML 08-22.