



Foundations On-Demand

MI Essentials Answer Key

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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 .
- 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
- 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.

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.