

Lender Risk: Private Mortgage Insurance and 80/10/10 Programs

To reduce the risk of losing money, lenders select well-qualified buyers with a strong credit history, low income-to-debt ratio, and income stability.

Loan programs that help lenders reduce their risk are 80/10/10 or 80/15/5 loans. These combine a first mortgage and a second mortgage to spread the risk between two lenders. The numbers represent the first loan percentage, second loan percentage, and the down payment.

Here's how it works. The first lender offers a mortgage for 80 percent of the value. Another lender offers a second mortgage for 10 percent of the value. The borrower puts down 10 percent. With 80/15/5, the second lender offers 15 percent and the buyer puts down 5 percent.

With only 80 percent of the loan invested, 80/10/10 and 80/15/5 loans reduce the first lender's risk. The buyer makes a payment to the first lender and a second payment to the second lender.

Since neither lender lends more than 80 percent of the value, private mortgage insurance (PMI) is not required. PMI is only necessary when a lender lends more than 80 percent of the value. No private mortgage insurance means a lower monthly payment.

Ask your sales professional about 80/10/10 and 80/15/5 loan programs.