Lenders mortgage insurance fact sheet

VINCENTS lending solutions

Lenders Mortgage Insurance is often referred to as LMI. It is insurance that a lender takes out to insure itself against the risk of not recovering the full loan balance if the borrower (you) were unable to meet loan repayments.

LMI is a one-off fee charged by the Lender to you when you need to borrow more than 80% of the value of the property.

Benefits of LMI

- The benefit of LMI is it allows lenders to provide home loans to customers who do not have a substantial deposit but would otherwise meet the lenders credit requirements.
- LMI covers the outstanding balance of the loan owing to the lender if the sale of the property does not cover the total loan amount.

What is the cost of LMI?

- The LMI premium payable can either be included into the loan amount (called capitalisation of LMI) or paid upfront on settlement. The lender will be able to provide you the applicable costs of LMI.
- It is important to note, if you choose to capitalise the LMI, your loan repayments are based on the higher loan amount which includes the LMI premium.
- The cost of LMI will vary and it will depend on the lender, how much is borrowed and the size of the deposit.

Is LMI refundable?

- LMI may be partially refundable if the loan is terminated early, usually within the first two years.
- Each lender will have their own refund arrangements.

What happens if a borrower defaults and the property is sold?

- If the borrower is unable to meet their loan repayments and there is no other resolution, the property may need to be sold to cover any outstanding loan amount.
- The LMI insurer will pay the lender in accordance with their LMI policy and could then ask the borrower to repay this sum directly to them.
- LMI does not protect you or cover your loan repayments in the event you are unable to make the repayments on your mortgage. You should discuss personal insurance options such as Mortgage Protection Insurance with your broker to cover any unforeseen circumstances.

What happens when the loan is refinanced?

- LMI is lender specific, which means if you refinance your home loan to a different lender and you borrow more than 80% of the value of the property, you will have to pay LMI again.

- Do your research, as this may outweigh the benefits of refinancing to a lower interest rate.
- If the equity in your home has increased or you have paid down the principal on your loan, you may not need to borrow more than 80% with the new lender and therefore avoid paying LMI again.

Case study

Bob and Jill have found a home they want to buy for $500,000. Typically, they would need a 20% deposit ($100,000) to secure a loan from their lender. By taking out Lenders Mortgage Insurance, their lender is prepared to provide a loan up to 95% of the value of the home.

This means that Jenny and Tom can secure a home loan sooner with a 5% deposit ($25,000) and stop paying rent. Their lender passes on the Lenders Mortgage Insurance premium cost to Bob and Jill by way of a fee called a “premium”.

The Lenders Mortgage Insurance protects the lender if Bob and Jill default on their loan repayments – it does not protect Jenny and Tom.

Important: *If you experience problems in meeting your loan repayments, you should contact your lender as soon as possible as you may be able to arrange a payment variation on the grounds of financial hardship. More information about LMI can be found at www.moneysmart.gov.au or www.asic.goc.au*