

Lenders Mortgage Insurance

Lenders Mortgage Insurance, or LMI, is designed to protect the lender, not the borrower, in case the borrower defaults on their loan (i.e. can no longer make their repayments). If the borrower defaults, the lender can repossess the property, however there's a risk that the property price could have fallen and the lender could suffer a loss. LMI covers this risk.

WHAT YOU NEED TO KNOW

- LMI can allow borrowers with a smaller deposit to get into the property market sooner
- Typically, LMI is only required if the borrower has less than a 20% deposit as they are seen as more risky and the lender has less of a buffer if the property value was to decrease. However, as different lenders may have different rules, ask your broker about different lenders policies
- The amount of LMI required varies and can depend on the size of your deposit, the loan amount and property value.
- Depending on the lender, the LMI amount may be added onto the loan or paid as an upfront cost
- If it's added to the loan, it will increase your loan amount and therefore increase the interest you pay over the life of the loan
- To avoid paying LMI you could consider.
 - Growing your deposit to 20% or more
 - Getting a family member to go guarantor
 - Asking your broker if you qualify for any LMI Waiver schemes

Let's look at this example

If you want to buy a house that's worth \$500,000, you would typically require a deposit of \$100,000 (20% of the property's value). If you've only saved \$50,000, but you have sufficient income to support the loan, you may be able to take advantage of Lenders Mortgage Insurance. You could then secure a loan of \$450,000 needed to buy your new home.

Need more information?

LMI requirements may differ between lenders so it's important to understand your chosen lender's requirements.

It should be remembered that this fact sheet is intended to provide general information of an educational nature only. It does not have regard to the financial situation or needs of any individual and must not be relied upon as financial product advice.

As this information has been prepared without considering your objectives, financial situation or needs you should, before acting on this, consider the appropriateness to your circumstances.

As always, if you have any questions, you can contact your broker.