Facts about Lenders Mortgage Insurance

What is Lenders Mortgage Insurance?

Lenders Mortgage Insurance (LMI) is one way of getting into homeownership without having the 20% deposit which is typically required by most banks and financial institutions.

With LMI, lenders may allow you to borrow a higher proportion of the purchase price, allowing you to purchase a property with a smaller deposit than would otherwise be required. It may also enable you to borrow at an interest rate that is comparable to a borrower who has a larger deposit.

Who is insured?

The lender is the insured party, not you, the borrower, nor any guarantor. Where a claim for loss is paid to a lender, Genworth may seek recovery from you, or any guarantor, for any shortfall amount.

LMI should not be mistaken for Mortgage Protection Insurance, which covers your mortgage in the event of death, sickness, unemployment or disability.

Why does my loan require LMI and how can it benefit me?

Achieving the dream of homeownership is, for many people, one of the most exciting accomplishments in life. It can also be one of the most difficult challenges due to the length of time it takes most people to save the traditional 20% deposit and the sacrifices they make through the process.

For over 50 years, Genworth and its predecessors have assisted Australians with this challenge by providing LMI.

By reducing a lender's risk at the outset, LMI allows borrowers to secure a mortgage for a home or even their second home or property with a deposit as low as 5%. This takes much of the difficulty out of saving a deposit.

What costs are involved?

Unlike traditional insurance products, there is a one-off premium payable for LMI. This premium is charged by the LMI provider to the lender, who typically passes this cost on to the borrower. The premium is payable when the loan funds are advanced and it provides cover for the full term of the loan.

The cost of LMI varies depending on a number of factors, including but not limited to, the amount of the loan, the level of your equity in the security property (how much of your own savings you contribute to the purchase) and the level of risk associated with the particular loan product you choose.

Some lenders will allow you to add the cost of the LMI premium on to your loan, meaning you will not have to pay this amount upfront. Your loan repayments will increase marginally to cover the cost of the LMI premium.

Is the premium refundable?

A partial refund of the LMI premium may be applicable if the loan is repaid within the first two years. Sometimes a partial refund is not payable as a lower LMI premium may have been charged to you upfront. This varies by lender, so please speak to your lender to find out what arrangements they have in place.

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How is LMI arranged?

Your lender or broker will prepare all the necessary information and documentation and will advise you whether or not your loan requires LMI, the cost of the premium and any additional information that may be required.

What can I do if I'm having difficulty meeting my mortgage repayments?

A lot of people face unforeseen challenges in their life or their circumstances may change. This can often mean you may experience difficulties in meeting your mortgage repayments.

If this happens to you, the most important thing to do is to contact your lender immediately. There are a number of ways your lender can assist you if you are experiencing hardship, and it is best to contact them early.

Genworth, as well as your lender, has programs in place to assist you if you find yourself in financial hardship.

For more information

The LMI Toolkit on the Genworth website contain tools and resources that will assist you to better understand LMI and the mortgage market. Among these resources are case studies, fact sheets and videos that further explain LMI, the process of buying a home, and information of what you should do if you find yourself in financial hardship.

Visit **genworth.com.au/lmitoolkit** for more information.

Below are two case studies highlighting potential scenarios. These case studies are not exhaustive and the outcomes will vary on a case-by-case basis.

Case study - What are the benefits of using LMI?

Michael and Sarah are buying their first home and have found a property valued at $505,000. They have managed to save just over $50,000 for their deposit, plus enough to cover the costs associated with the purchase, such as stamp duty.

Their broker has advised that as they don't have a 20% deposit, they have a couple of other options to consider. The first is to delay purchasing their home and continue to save for a few more years. The second is they can purchase their home now using LMI.

Michael and Sarah are eager to get into their own home. After discussing further with their broker, they agree they would have difficulty saving a further $50,000 to meet the 20% deposit requirement whilst continuing to pay rent. They decide to pay for LMI and buy their home now to start building equity.

Case study - What happens if I stop making my loan repayments?

Nigel bought an investment property 18 months ago. After the tenants moved out, he was unable to get new tenants as the large manufacturing company in the town recently closed down. Without the rental income, Nigel was unable to make his loan repayments.

Unfortunately, Nigel did not contact his lender to explain his situation and soon found himself six months behind on his loan repayments. Nigel's lender attempted to contact him on several occasions, but he failed to respond to their letters and phone calls, leaving them with no other option than to repossess the property. The property was sold for $420,000 leaving a difference owing to the lender of about $40,000.

The LMI provider, under the LMI policy, pays the lender $48,000 (outstanding debt, interest and costs). The LMI provider also has the right to recover this amount from Nigel.

Disclaimer: information contained in this fact sheet does not constitute financial advice. Borrowers should consider their own personal circumstances and seek advice from their professional advisers before making any decisions that may impact their financial position.

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