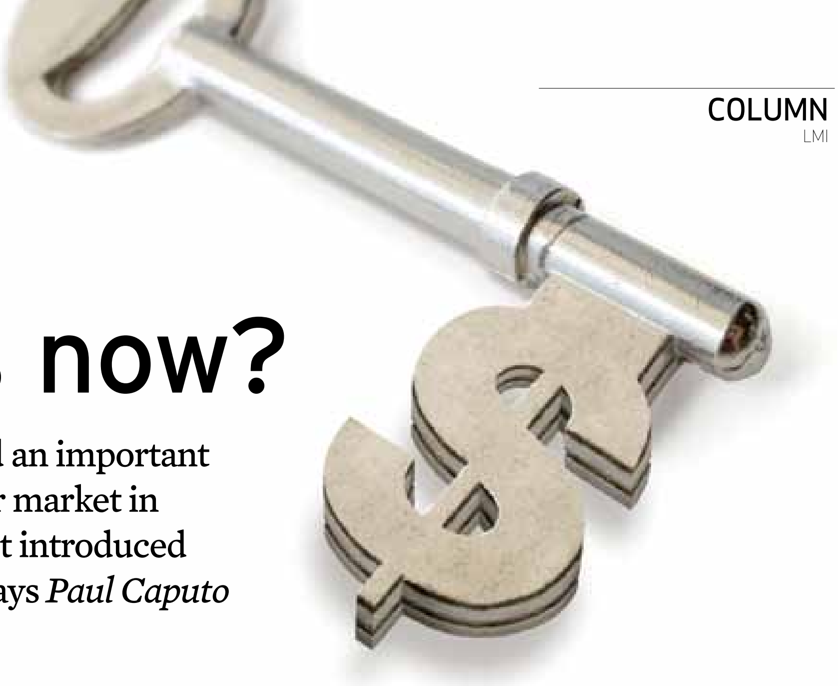

How soon is now?

High loan-to-value lending has played an important role in supporting the first homebuyer market in Australia since the federal government introduced lenders mortgage insurance in 1965, says *Paul Caputo*

Paul Caputo

With affordability proving a major disincentive to first homebuyers (FHBs) trying to get into the property market, the availability of high LVR loans, in conjunction with lenders mortgage insurance, has never been more crucial to Australians realising their dream of home ownership.

There has been speculation recently that mortgage insurers are no longer supporting the high LVR market. As one of Australia's leading mortgage insurers with over 45 years in the business, Genworth Financial is as committed as ever to supporting FHBs and the high LVR market. Indeed, amid rising property prices and rental increases, responsible high LVR lending and the use of LMI can help FHBs address house price affordability issues and exit the rental trap.

For those unfamiliar with LMI, it allows borrowers to take out loans of up to 95% of the property value of their home by insuring the lender against borrower default. This means borrowers can buy a home with a lower deposit than is usually required, on the same terms and interest rate as those with a larger deposit. Without LMI, lenders typically require borrowers to have at least a 20% deposit.

Let's use the example of a newly married couple to illustrate this point. Many young couples struggle to save enough for a deposit but are well placed to service a mortgage if they are able to find finance. By using LMI, and assuming the First Home Owner Grant will be received, a couple with $20,000 of genuine savings can meet the requirements for a deposit on a $400,000 house, and the associated costs of a mortgage, such as solicitor and loan application fees.

The additional cost of a Genworth LMI premium can often be capitalised onto the loan, and can provide this couple with an opportunity to purchase a home. Based on the case study above, capitalising LMI will only add approximately $81 per month to their repayments, based on a standard 30-year mortgage at the current variable interest rate. So for less than the price of a coffee a day, a young couple can achieve their dream of home ownership sooner.

This case study is a simple example of how LMI is being used throughout Australia to facilitate home ownership. Rising house price appreciation and interest rate rises are pricing many FHBs out of the market. LMI offers them a way in.

Recognising that home ownership remains a priority for most Australians, Genworth continues to insure loans with LVRs of up to 95% to help turn this dream into a reality. Our continued support of this market is paramount to the lenders we work with, and the wider economy. Indeed, the strength of the first homebuyer market throughout the global financial crisis, as supported by government incentives, would not have been possible without the assistance of LMI.

Genworth regularly monitors the market for high LVR loans which performed well during the global financial crisis and has continued to do so into the recovery period.

While Genworth supports high LVR lending, it is essential that these loans be originated and underwritten prudently and responsibly. As we highlighted in this column last month, Genworth has implemented minimum verification and validation techniques to help ensure these objectives are met.

When implemented effectively, verification and validation processes provide for increased security and confidence in high LVR lending markets.

So, the short response to speculation about mortgage insurers not supporting high LVR loans is that at Genworth, we have always been comfortable with high LVR loans, and we will continue to support this area of the market to bring about home ownership sooner in a responsible and prudent manner.

Paul Caputo is acting CEO of Genworth Financial