

Lenders Mortgage Insurance (LMI)



What is LMI?

LMI is insurance that a lender takes out to insure itself against the risk of not recovering the full loan balance should you, the borrower, be unable to meet your loan payments.

It is important to understand that LMI covers the lender, not you (or any guarantor).

LMI provides consumers with a benefit as it allows lenders to provide home loans to those who otherwise meet their lending requirements but who may still be rejected for a loan because they do not have a substantial deposit.

What is the cost of LMI?

The LMI premium is payable at settlement by the lender, but usually passed on by the lender as a cost to the borrower.

The cost varies depending on the lender, how much is borrowed and the size of the deposit.

The premium may be able to be included as part of the loan amount or paid upfront on settlement. Your lender can provide details of the likely costs after you have applied for the loan.

On refinancing, LMI may be payable again (especially if you are increasing your loan amount).

Is LMI refundable?

LMI may be partially refundable if the loan is terminated early in the life of the loan (usually the first year or two only). Each lender can provide details of their own refund arrangements.

For more Frequently Asked Questions about LMI

Visit www.understandinsurance.com.au/types-of-insurance/lenders-mortgage-insurance



What happens if I default and my property is sold?

If you, the borrower, have problems and cannot meet your loan repayments and no other resolution is found, your property may need to be sold to cover the outstanding loan amount. In this situation sometimes the house is sold for less than the amount owing. The LMI insurer may pay your lender an amount in accordance with the LMI policy, and may then ask you, the borrower, to repay this sum directly to them.

Important

If you experience problems making your repayments, you need to contact your lender as soon as possible as you may be able to arrange a payment variation on the grounds of financial hardship.

Where can I find out more information about LMI?

You can contact your lender, or visit the financial information website of the Australian Securities and Investments Commission at www.moneysmart.gov.au

Example



John borrows \$450,000 to buy a home valued at \$500,000. As John's deposit is less than the lender's requirements, John pays the cost of the LMI which for him is included in the amount borrowed. John then becomes unemployed and defaults on his repayments. The lender repossesses the home and sells it for only \$400,000, leaving a difference of \$50,000. The LMI insurer under the policy pays the lender \$55,000, and then has the right to require John to repay this amount to it.