

ARTICULATING LENDER'S MORTGAGE INSURANCE

LMI is often misunderstood by borrowers. Fortunately brokers have the ability to clear up any confusion



WITH AFFORDABILITY an increasing concern in the current market, a growing number of borrowers are finding that the traditional 20 per cent deposit is well beyond their reach.

For many, this will mean missing out on home ownership for many years while they struggle to save for a deposit. However, with a clearer understanding of the benefits, costs and opportunities associated with lenders' mortgage insurance (LMI), it could be a very different story.

Genworth Financial's chief commercial officer Bridget Sakr says while most borrowers do have some understanding of LMI, there is definitely confusion about exactly how it works.

That's where the broker comes in.

According to Ms Sakr, brokers can play a pivotal role in helping borrowers understand not only what LMI is, but also the benefits and opportunities associated with it.

"Borrowers look to their broker for guidance on their mortgage requirements and so there is a real opportunity for them to help educate their clients on LMI," Ms Sakr says.

THE PERFECT PITCH

So, what is the best way for a broker to broach the issue of LMI with their client?

According to Ms Sakr, the best plan of attack is to be upfront and honest: "Once a borrower knows what LMI is

and what it can do for them, they can make an informed choice. Without LMI they may not have one," she says.

Ms Sakr says it is also important for brokers to explain the LMI premium payment options available to borrowers.

"Borrowers often don't understand that many lenders will actually allow them to capitalise the cost of LMI onto the loan, making it part of their monthly mortgage repayments, minimising the impact on the borrower's cash flow at the time of purchase," she explains.

Instead, borrowers often see LMI as a large cost that must be paid upfront.

What the borrower also has to bear in mind is that in many instances, without LMI, some borrowers would have no way of getting into the property market.

"There's definitely some misunderstanding among borrowers about how much LMI costs and how they need to pay for it," Ms Sakr says, adding that in many instances, borrowers think LMI is an annual premium.

Brokers can help to dispel this misconception and let borrowers know that they can actually capitalise LMI onto their loan.

By capitalising their LMI premium onto the loan, often borrowers will find that the cost of LMI can be less than the cost of their monthly internet or Foxtel bill.

Without accurate information on LMI, many borrowers may choose not to apply for a mortgage and instead wait and save the funds needed to get a 20 per cent deposit. With average house prices in Sydney

currently at over \$600,000, that is an average 20 per cent deposit of at least \$120,000.

Also, what borrowers may fail to take into account is just how far the property market might move in the two or three years it takes to save the full deposit. By the time they save the 20 per cent, house prices may have climbed 10 or 15 per cent, Ms Sakr says.

"Brokers are in the perfect position to articulate this missed opportunity to their clients."

LEARNING MORE

"Genworth has always worked with industry bodies and lenders – and independently – to increase consumer awareness of how LMI works and the availability of LMI," Ms Sakr says. "And we welcome the opportunity to further ensure consumers understand how LMI works."

"To this end, Genworth is currently working with government and other stakeholders to improve consumer awareness of LMI."

If brokers would like to know more about the benefits of LMI and how it works, there are a range of tips and tools available to them.

"The Genworth website remains our main source of information," Ms Sakr says.

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"The broker centre on the website includes a servicing calculator, location guide, LMI premium estimator, and the Genworth 'Buy Now or Wait and Save Tool'.

"This tool is a fast and effective way to help borrowers work out whether now is the right time for them to buy a property, or if it would be wiser for them to wait and save a bigger deposit."

Genworth also has a newly-launched Facebook page that brokers can visit if they want to engage in further conversations about LMI and the mortgage industry.

For borrower sentiment on the mortgage market the 'Streets Ahead: Genworth Homebuyer Confidence Index' provides a unique insight into how consumers feel about current economic conditions, while the Genworth 'Home Grown: Perspectives on the mortgage industry' report, provides brokers with an idea of how their colleagues see the market state of play. ■



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