Helping you understand Lenders Mortgage Insurance

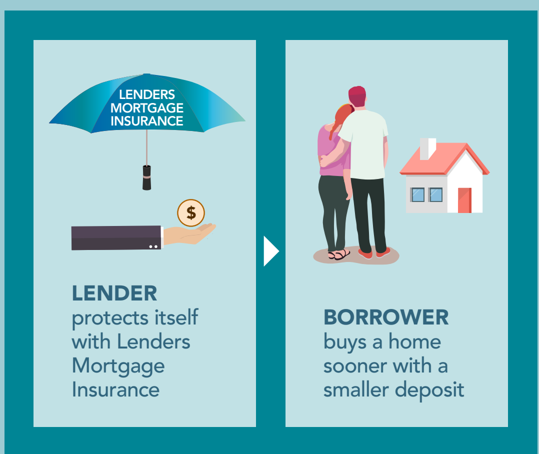
Genworth

Achieving the dream of home ownership is one of the most exciting times in your life. However, it also comes with a big challenge – the time it takes to save a substantial deposit that lenders often require (typically 20% of the home's purchase price).

If you do not have a substantial deposit saved, your lender may be prepared to provide you a home loan with a smaller deposit (as little as 5%), by taking out Lenders Mortgage Insurance.

What is Lenders Mortgage Insurance?

Lenders Mortgage Insurance is an insurance policy that your lender takes out to protect itself against the risk that you (the borrower) default on your loan repayments and your lender is unable to recover the full outstanding loan amount.



CASE STUDY

What are the benefits of using Lenders Mortgage Insurance?

Jenny and Tom have found a home they want to buy for $500,000. Typically, they would need a 20% deposit ($100,000) to secure a loan from their lender. By taking out Lenders Mortgage Insurance their lender is prepared to provide a loan up to 95% of the value of the home.

This means that Jenny and Tom can secure a home loan sooner with a 5% deposit ($25,000) and stop paying rent. Their lender passes on the Lenders Mortgage Insurance premium cost to Jenny and Tom by way of a fee.

The Lenders Mortgage Insurance protects the lender if Jenny and Tom default on their loan repayments – it does not protect Jenny and Tom.

Lenders Mortgage Insurance protects your lender, not you, the borrower

It is important to note that Lenders Mortgage Insurance does not protect you (the borrower) or any guarantor. It should not be confused with Mortgage Protection Insurance which is a separate insurance policy that protects you (the borrower) if you are unable to make repayments on your loan.

How does Lenders Mortgage Insurance help you, the borrower?

Lenders Mortgage Insurance enables you (the borrower) to obtain a home loan that might not otherwise be available, by reducing the deposit you are required to provide. This means you will be able to:

- buy a home sooner and stop paying rent; or
- buy a more expensive property with the deposit that you have.

It may also enable you to borrow at an interest rate that is comparable to a borrower with a substantial deposit.

Lenders Mortgage Insurance is a one-off cost

Lenders Mortgage Insurance is arranged by your lender and the premium is a one-off cost your lender pays to us (the insurer) upon settlement of your property purchase.

This cost is passed on to you (the borrower) by your lender, as a fee.

Your lender will tell you how much it will cost after you apply for your loan. The cost will depend on various factors including the size of your deposit and the type of loan you take out. Our **LMI premium estimator** is an online calculator that can provide you with an estimate of the premium payable.

You may be able to add the cost of this fee to your loan amount, which means you will pay interest on it over the term of your loan. Otherwise you will need to pay it up front, before your lender provides your home loan.

Refunds

The Lenders Mortgage Insurance fee that your lender charges you may be partially refundable if your loan is terminated within the first two years.

Alternatively, your lender may not provide a refund because it has arranged to receive a larger up-front discount on its Lenders Mortgage Insurance premium (instead of the right to a refund). In this case the full amount of this discount is passed on to you. This means that if you were to refinance your home loan with another lender or increase your loan amount, you may be required to pay a Lenders Mortgage Insurance fee again.

You should check with your lender to find out if they have a refund policy and if it applies to you.

Difficulty making your repayments?

If you are experiencing financial difficulties and are concerned about your ability to make your loan repayments on time, it is important that you let your lender know as soon as possible, as you may be able to arrange a payment variation.

What happens if you default and your property is sold?

If you default on your loan, your property might be sold. If the money received from the sale of your property is not enough to repay your outstanding loan, your lender can make a Lenders Mortgage Insurance claim and we (the insurer) will pay your lender the shortfall.

Once a claim has been paid, you (the borrower) continue to be responsible for the outstanding shortfall debt. Typically, this debt is passed on to us (the insurer) by your lender and we may seek to recover the outstanding shortfall debt directly from you (the borrower) and any guarantors.

FURTHER QUESTIONS?
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