



# *Helping you understand* **LENDERS MORTGAGE INSURANCE**

## HOW LMI CAN HELP YOU PURCHASE YOUR OWN HOME SOONER

**I**t can be difficult to save a deposit to buy a home with increasing house prices, renting and the cost of living placing additional stresses on your ability to save. Here we explain what LMI is and how it may help get you into your own home sooner.

### **WHAT IS LENDERS MORTGAGE INSURANCE?**

Lenders Mortgage Insurance (LMI) may make it possible for you to buy a home without having to save a 20 per cent deposit. It may also enable you to borrow at a more competitive interest rate that is comparable to a borrower who has a larger deposit. The realities of the Australian housing market mean that without the benefit of LMI many first home buyers would not be able to purchase their own homes.

LMI is insurance that protects the lender – though the cost is borne by you, the borrower – in the event that you default on your home loan, reducing the risk to the lender which has passed that risk on to the LMI provider. As the lender has reduced its risk, it is more willing to lend funds for a property to you with a smaller deposit – sometimes as low as five per

cent of the value of the property.

To be clear – Lenders Mortgage Insurance is not mortgage protection insurance. LMI is explicitly designed to protect the lender and to help you secure your own home sooner, while Mortgage Protection Insurance covers your mortgage in the event of sickness, unemployment, disability or death. The LMI premium can usually be added to your home loan.

Simply put, 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.**

### **EXAMPLE OF HOW LMI IS USED SCENARIO**

Jenny and Tom have found a home they want to buy for \$500,000. Typically, they would need a 20 per cent 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 per cent of the value of the home.

This means that Jenny and Tom can secure a home loan sooner with a 5 per cent 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.

### **PAYMENT OF LENDERS MORTGAGE INSURANCE**

Lenders Mortgage Insurance is arranged by your lender and the premium can be a one-off cost your lender pays to the LMI provider (the insurer) upon settlement of your property purchase or it can be paid monthly over the LMI policy term. 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 when you apply for your loan. The cost will depend on various factors including the size of your deposit, the type of loan you take out, and which LMI payment option you choose. Genworth's **LMI premium estimator** is an online calculator that can provide you with an estimate of the premium payable.

### Payment options

If the fee is payable as a one-off cost:

1. 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 full term of your loan; or
2. You may choose to pay it up front at time of loan settlement.

If the fee is payable monthly over the LMI policy term – you will pay the monthly fee to your lender, until the loan to value ratio reaches a specified level.

You should discuss with your Lender or Broker which payment option best suits your circumstances.

### HERE TO HELP

Genworth, Australia's leading provider of LMI, regularly sees firsthand the difference LMI can make to the lives of Australians, by helping them get into homes sooner reducing the stress associated with saving the traditional 20 per cent deposit.



Genworth is the leading provider of LMI in Australia. LMI has been an important part of the Australian residential mortgage lending market since it was introduced by the Australian Government in 1965 to help support home ownership.

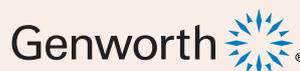
Genworth also understands that borrowers might encounter financial difficulty, so they have established a hardship program, that assists borrowers struggling with their loan repayments. Since 2013 Genworth has helped 70,964 borrowers, through this program, by supporting lenders to offer deferred and/or reduced repayments, and even loan term extensions. People struggling to save a deposit, can speak to their lender or broker about LMI and find out how it can help you get into your own home sooner.

For more information on LMI, please visit [genworth.com.au/borrowers](http://genworth.com.au/borrowers) Independent information on Lenders Mortgage Insurance can be found on the Insurance Council of Australia's website. Download the LMI Fact Sheet at [understandinsurance.com.au/types-of-insurance/lenders-mortgage-insurance](http://understandinsurance.com.au/types-of-insurance/lenders-mortgage-insurance)

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## BUYING A HOME with LMI

**20% DEPOSIT**

Typically, lenders require a deposit of 20% of the purchase price

**5% DEPOSIT**

But you can secure a home loan with as little as 5% deposit

TO DO THIS, YOUR LENDER MAY REQUIRE LMI

### WHAT IS LMI?

LMI protects your lender if you default on your loan and your lender is unable to recover the full loan amount you owe

### HOW DOES LMI BENEFIT YOU?

It enables you to:

- Buy a home sooner
- Save on paying rent
- Start growing equity in a home
- Access competitive interest rates

### WHAT IS THE COST OF LMI?

Use the [Genworth LMI premium estimator](#) to calculate the premium payable

LMI typically costs between 1 – 2% of the loan but this can vary depending on:

- Deposit amount
- Type of loan
- Value of the property purchased

### WHO PAYS FOR LMI?

Your lender will pass on the cost to you as a fee

### Payment options:

- Fee can be added to your loan amount and included in your loan repayments
- Pay it as an upfront lump sum cost
- Pay by the month

### ARE REFUNDS AVAILABLE?

Check with your lender

Partial refunds may be available within the first two years

Or you may have received a greater discount on the LMI premium in lieu of a refund