

How LMI CAN HELP YOU PURCHASE YOUR OWN HOME SOONER

It 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 how LMI may 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. Simply put, 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 so 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.

THE NUMBERS

When a lender takes out LMI it means that if you are interested in purchasing a \$720,000 property and facing the prospect of saving a \$144,000 (20 per cent) deposit, with LMI you could potentially only have to save \$36,000 (five per cent). This means you can get into their home sooner, begin paying off your home loan and potentially start building equity sooner.

LMI premiums are based on a combination of factors that influence the risk of a borrower defaulting on their loan, but the key drivers are the amount of the loan and the value of the security (e.g. premiums are more expensive for larger loans with smaller deposits). In the example, for a first home buyer who wishes to purchase a \$720,000 property

and has a \$72,000 deposit (10 per cent), Genworth's LMI Premium Estimator returns an indicative LMI premium of \$15,811 – a small proportion of the overall cost that will help you enter the market months, or years, earlier than if you had to save that additional \$72,000 to get to a 20 per cent deposit.

OTHER OPTIONS

It may be suggested by some lenders or brokers that there are better options than paying for the lender taking out Lenders Mortgage Insurance.

Sometimes parents may offer to use the equity in their own home to provide a supporting mortgage and/or guarantee. At a time when house price growth is slowing, this requires serious consideration. And of course, not everyone's parents are in the position to be able to assist in this manner.

Another suggestion is to borrow the deposit shortfall as an unsecured personal loan or to obtain a cash advance on a credit card. Whilst this can be a short-term fix, most lenders will not accept borrowed funds as a source of the deposit or if they do, you will be required to list them as a liability, potentially decreasing the amount you



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can borrow anyway. Longer-term, the higher interest rates on credit cards and personal loans can result in financial stress, when the repayments need to be paid on top of your new home loan repayment.

If parents want to assist their children buy their first home, covering the cost of their payment to their lender for its LMI premium, instead of guaranteeing the loan, is a way they can help their children without putting themselves in a potential position of undue financial risk. Covering the cost of LMI to the lender is an affordable alternative and means that if their children default on the mortgage, the parents are not at risk of having to repay the full remaining loan amount.

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 in a safe way and reducing the stress associated with saving the traditional 20 per cent deposit.

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 over 66,000 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/lmitoolkit

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 homeownership. 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



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