

How Lenders Mortgage Insurance **CAN HELP YOU GET INTO YOUR OWN HOME SOONER**

GEORGETTE NICHOLAS, CHIEF EXECUTIVE OFFICER AT GENWORTH
EXPLAINS ONE WAY OF GETTING INTO YOUR OWN HOME SOONER

Rising property prices in many locations, combined with cost of living pressures and the everyday stresses of life, mean that it is as difficult as ever to save a deposit to buy a home.

In 2016, Genworth conducted a survey of over 2000 Australian consumers to gauge sentiment around the property market and mortgage stress. The survey found that accessibility (the ability to enter the property market), as opposed to affordability (the ability to meet mortgage repayments), remains the key barrier to purchasing a first home. One third of the respondents indicated that high property prices are the greatest barrier to homeownership, while a quarter suggested the biggest barrier is saving for the deposit.

► **SO WHAT IS LENDERS MORTGAGE INSURANCE?**

Lenders Mortgage Insurance, or LMI, makes it possible to buy a home in a safe way 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 LMI many first homebuyers would not be able to purchase their own homes.

LMI is insurance that protects the lender – though the cost is borne by 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 the funds for a property to a borrower with a smaller deposit – sometimes as low as five per cent of the value of the property.

Let's be very clear – Lenders Mortgage Insurance is not Mortgage Protection Insurance. LMI is explicitly designed to help you secure your own home sooner while Mortgage Protection Insurance covers your mortgage in the event of death, sickness, unemployment or disability. With both products, it is the borrower who covers the cost of the premiums, rather than the lender. The LMI premium can usually be added to your home loan.

► **THE NUMBERS**

Paying for the lender to take out LMI means that a homebuyer who is interested in a \$500,000 property and facing the prospect of saving a \$100,000 (20 per cent) deposit could potentially only have to save \$25,000 (five per cent). This means they can get into their home sooner, begin paying off their home loan

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and potentially start building equity.

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 (eg premiums are more expensive for larger loans with smaller deposits). As an example, for a first homebuyer who wishes to purchase a \$500,000 property and has a \$50,000 deposit, Genworth's LMI Premium Estimator returns an indicative LMI premium of \$8640 – 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 \$50,000 (check out our *Buy or rent* article on page 40).

► HERE TO HELP

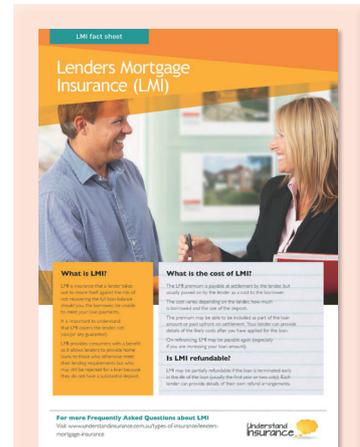
Being a part of Genworth, Australia's leading provider of LMI, has allowed me to see firsthand the difference LMI can make to the lives of Australians, by helping them get into homes sooner in a safe way and reducing the stress associated with saving the traditional 20 per cent deposit.

Genworth also understands that borrowers might encounter financial difficulty so we established a Hardship Program, which assists borrowers struggling with their mortgage repayments. To date, Genworth has helped over 60,000 borrowers through this program, by supporting lenders to offer deferred and/or reduced repayments, and even loan term extensions.

I would encourage anyone struggling to save a deposit to speak to their lender or broker about LMI and find out how it can help you get into your own home sooner.

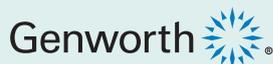
For more information on LMI, please visit genworth.com.au/lmitoolkit

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.



FACT SHEET

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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