LENDERS MORTGAGE INSURANCE FACTS

What is Lenders Mortgage Insurance?

Lenders Mortgage Insurance (LMI) protects lenders if a borrower defaults on a home loan, and if the proceeds from selling the property fall short of repaying the loan entirely.

When is LMI required?

Lenders obtain LMI when it is required to meet credit underwriting standards.

Generally, if a borrower's deposit is less than 20% of the property value, then LMI is usually required. There may be other circumstances in which lenders require LMI.

What benefit does LMI provide to borrowers?

Because LMI reduces the lender's risk when providing a home loan, borrowers might be able to apply for a home loan and get into their home sooner, with a lower deposit.

Who pays the LMI premium?

Generally, lenders pass on the cost of LMI to borrowers. Lenders do not receive a commission on Lenders Mortgage Insurance.

What is the cost of LMI?

The cost of LMI is calculated as a percentage of the loan amount. The LMI percentage applied will vary depending on a number of factors, including the loan amount and loan-to-value ratio (LVR).

LVR is calculated by dividing the loan amount by the value of the property. For example, if the loan amount is $450,000 and the property value is $500,000, then the LVR is 90%: $450,000 / $500,000 = 0.9 or 90%.

To calculate the LMI premium, the lender will multiply the loan amount by the applicable LMI percentage. For example, if the loan amount is $450,000 and the LMI percentage is 1.8%, then the LMI premium is $8,100: $450,000 x 1.8% = $8,100.

Please speak to your lender if you would like to understand this process in more detail.

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How is the LMI premium paid?

We provide options for how LMI premiums can be paid:

- **Single Premium:** A one-time charge is paid at loan settlement.
- **Capitalised Premium:** The premium is added to the loan and paid through scheduled repayments over the life of the loan.
- **Staged Premium:** The premium is spread over a flexible term.

You can find out more about these options by speaking to your lender.

Am I entitled to a refund if I repay my loan early?

Borrowers may be eligible for a partial refund of the premium paid, if they meet each of the following conditions:

1. All loans covered under the LMI policy are repaid in full and any associated mortgage is discharged:
    a. within 12 months of the settlement date, a refund of 40% of the premium could apply, or
    b. from 12 months to less than or equal to 24 months, a refund of 20% of the premium could apply.
2. The loans covered have not been in arrears throughout the loan term.
3. The calculated refund is greater than the minimum threshold (any stamp duty is not refundable).

You can find out the minimum threshold for your loan by speaking to your lender.

What happens if my circumstances change?

Refinancing

LMI coverage isn't transferable when refinancing your loan to a new lender. The LMI policy solely binds your current lender and their LMI provider. If you consider refinancing, be aware that a new LMI policy might be required by the new lender.

Loan variations

If you intend to make changes to your existing loan, there might be cases where additional LMI premium is applicable. Your lender will provide information regarding which loan variations attract additional LMI premium or if certain changes won't affect the existing LMI coverage.

Financial Hardship

If you encounter financial hardship, promptly contact your lender to discuss alternative repayment arrangements. LMI coverage remains intact while collaborating with your lender to navigate these circumstances.

Additional facts to consider

It's important to understand LMI is obtained by and protects the lender, not the borrower.

LMI should not be confused with mortgage protection insurance, which safeguards borrowers in cases of death, disability, unemployment or reduced income affecting mortgage payments.

If a borrower defaults on a home loan, and the property needs to be sold, a shortfall debt arises if the net proceeds from the sale are insufficient to repay the outstanding loan amount.

Should such a shortfall debt occur, borrowers (and/or their guarantors) remain responsible for covering it, potentially paying the LMI provider if the lender claims on the LMI policy.