

Fact Sheet

Lenders Mortgage Insurance (LMI)

What is LMI?

You may have to pay for Lenders Mortgage Insurance (LMI) if you borrow more than 80% of the value of your property. LMI protects the lender if you default on your loan and the sale of your property doesn't cover the value of the mortgage. Be aware that LMI doesn't protect you as the borrower if you're having trouble paying off your mortgage – this is called 'mortgage protection insurance'.

How much will it cost?

LMI can be a substantial cost. Premiums differ depending on the size of your loan, the size of your deposit, the insurer used, and sometimes, your employment status.

Your LMI premium will be calculated using a Loan to Valuation Ratio (LVR); the higher the LVR, the bigger the premium. You can get an idea of the cost by using an online LMI calculator; however speak to your Mortgage Adviser for a personalised quote.

Strategies to reduce LMI

NSW has a standard cooling off period that applies to non-auction residential property sales. This means that the buyer can choose not to go ahead with the sale within 5 business days from the date of exchange. Alternatively, the buyer can choose to sign an agreement that waives their right to a cooling off period; this is called a section 66W certificate.

The cooling off period

Saving

Saving for a 20% deposit is the simplest way to avoid paying LMI. First home buyers should also factor the First Home Owners Grant into their deposit. Even if your savings do not quite reach 20%, the closer you get to an 80% LVR, the cheaper your premium.

Seek assistance from family members

If you have parents or family members who are financially able, borrowing from them to reach a 20% deposit is one way to avoid LMI. Alternatively, a family member may be able to be a guarantor, which means if you default on your loan, they will bear the responsibility for repayments. There are usually some caveats with these options, so be sure to speak with your Adviser.

Shop around

Different lenders use different insurers so be sure to look around and compare. Some institutions will even self-insure depending on the LVR.

Negotiate

Some occupations are considered to have less of a risk of job loss. Find out how your occupation is considered and if applicable, ask your lender to consider waiving the LMI premium.

Purchasing within your means

It may be worth purchasing a cheaper property to build equity and upgrading later on. Your Adviser can help you work through this option.



Tips to minimise or avoid LMI:

- Save 20% of the cost of the purchase price. You may be able to use the First Home Owners Grant to help you reach a 20% deposit.
- Talk to your family. Family members can assist with a cash grant or family guarantee.
- Shop around. Talk to your Mortgage Adviser about LMI rates, which vary between lenders.
- Negotiate with your lender. Your occupation may reduce the perceived risk for the lender.
- Buy within your means. Consider buying a cheaper property to build equity then upgrade.

Need help?

For further information, please talk to your local Mortgage Adviser on (08) 9527 1800.

This sheet provides general information only and is correct at as at the document date (05/04/2017). Please refer to your Mortgage Adviser for full details.