Mortgage Choice

# What is Lenders Mortgage Insurance?

There are many costs in addition to the purchase price when you buy a property including Lenders Mortgage Insurance (LMI). It's important you understand what you might have to pay – and when – before applying for a loan, and factor these costs into your budget.

## Why do lenders charge LMI?

Lenders use LMI to protect themselves against the borrower not being able to meet their loan repayments. If the borrower defaults on their loan and the lender has to sell the property, the sale price may not be high enough to repay the amount owing on the mortgage. The lender can then take action against the borrower to recover any money paid out. This scenario is more likely if the loan amount is a higher percentage of the property value. LMI is designed to cover that shortfall and protect the lender.

## When is LMI charged?

LMI is a one-off, non-refundable insurance premium for those who borrow more than 80% of the property price or meet one of the LMI exemptions.

LMI can either be paid in full at settlement,  in monthly installments separate to the loan repayments, or added to your total loan amount or added to your total loan amount and paid off over the same time period as your mortgage (e.g. 30 years). Keep in mind that if LMI is added to your loan, you'll pay interest on the premium amount, and it will also increase your minimum monthly loan repayments.

## How is LMI calculated?

The amount of LMI you pay can vary depending on factors such as:

- The size of your deposit
- Your loan amount
- Whether you're planning to live in the property
- The lender you choose
- Your employment status (e.g. self-employed or an employee)
- Whether your deposit comes from genuine savings or other sources (e.g. a gift).

Before your property settles, your lender will calculate whether you need to pay LMI. If you have a mortgage broker, they'll let you know if the lender will charge you LMI and how much it will be.

If you're keen to hang on to as much of your money as possible, there are ways to make sure you won't have to pay LMI.

### Save a larger deposit

If your deposit is more than 20% of the property purchase price, your lender won't charge LMI.

### Have a guarantor for your loan

If you have someone who can provide additional security for your mortgage (e.g. a property they own outright), it may be possible to use some of their equity to avoid paying LMI.

### Qualify for an LMI exemption

If you're eligible for an exemption, your lender may offer you a discount on your LMI or waive it completely.

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### Do you qualify for an LMI discount or exemption?

Even if you're borrowing more than 80% of the purchase price, you may be eligible for an LMI discount or exemption if:

- You're borrowing only slightly more than 80% of the purchase price
- You're a medical or legal professional (strict criteria apply)
- Your lender charges a risk fee instead of LMI.

Your broker can help you work out whether you're eligible for an LMI exemption.

## LMI and refinancing

A final point to note is that LMI isn't transferable from one loan to another. So if you refinance and your loan amount is more than 80% of the property value at that time, you will most likely have to pay LMI (even if you already paid it on your previous loan).

### Case study: Emma and Ryan pay LMI so they can buy their first home

Emma and Ryan are saving up to buy their first home in NSW. They have saved $150,000 so far and found a house they want to buy. They make an offer of $850,000, which is accepted.

Keeping aside around $35,000 for stamp duty, conveyancing and registration fees, Emma and Ryan have $115,000 left over to use as a home deposit. They will need to borrow $735,000, which is 86.5% of the property price. Their deposit will be 13.5% of the property price and because this is less than 20%, they will need to pay LMI.

The lender calculates their LMI at $10,351 and adds it to their loan amount, taking the total to $745,351.

To avoid paying LMI, Emma and Ryan would have to either come up with an additional $55,000 for their home deposit or have a guarantor on their loan. As neither of these options are available to them, Emma and Ryan decide to pay LMI so they can purchase the home they want now.

## For expert mortgage advice, talk to your local broker today.