

# UNDERSTANDING

## LENDERS MORTGAGE INSURANCE

Achieving the dream of home ownership is one of the most exciting times in your life. However, it also comes with a big challenge – the time it takes to save a substantial deposit that lenders often require (typically 20% of the home's purchase price).

If you do not have a substantial deposit saved, we may be prepared to provide you a home loan with a smaller deposit (as little as 5%), by taking out Lenders Mortgage Insurance.

### WHAT IS LENDERS MORTGAGE INSURANCE?

Lenders Mortgage Insurance is an insurance policy that a lender takes out to protect itself against the risk that you (the borrower) default on your loan repayments and the lender is unable to recover the full outstanding loan amount.

### LENDERS MORTGAGE INSURANCE PROTECTS YOUR LENDER, NOT YOU THE BORROWER

It is important to note that Lenders Mortgage Insurance does not protect you (the borrower) or any guarantor. It should not be confused with Mortgage Protection Insurance which is a separate insurance policy that protects you (the borrower) if you are unable to make repayments on your loan.

### HOW DOES LENDERS MORTGAGE INSURANCE HELP YOU, THE BORROWER?

Lenders Mortgage Insurance enables you (the borrower) to obtain a home loan that might not otherwise be available, by reducing the deposit you are required to provide. This means you will be able to:

- buy a home sooner and stop paying rent; or
- buy a more expensive property with the deposit that you have.

It may also enable you to borrow at an interest rate that is comparable to a borrower with a substantial deposit.

### LENDERS MORTGAGE INSURANCE IS A ONE-OFF COST

Lenders Mortgage Insurance is arranged by the lender and the premium is a one-off cost we (the lender) pays to the insurer upon settlement of your property purchase. This cost is passed on to you (the borrower) by the lender, as a fee.

We (the lender) will tell you how much it will cost after you apply for your loan. The cost will depend on various factors including the size of your deposit and the type of loan you take out. Our LMI premium estimator is an online calculator that can provide you with an estimate of the LMI fee payable by you to the lender to take out LMI.

You may be able to add the cost of this LMI fee to your loan amount, which means you will pay interest on it over the term of your loan. Otherwise you will need to pay it up front, before the lender provides your home loan.

### REFUNDS

If your loan contract requires you to pay for Lenders Mortgage Insurance or pay a Lenders Risk Fee, this insurance or fee protects the Lender and not you.

The amount paid by you under your loan contract is usually not refundable if you repay your loan early.

This means that if you were to refinance your home loan with another lender or increase your loan amount, you may be required to pay a Lenders Mortgage Insurance fee again.

### DIFFICULTY MAKING REPAYMENTS?

If you are experiencing financial difficulties and are concerned about your ability to make your loan repayments on time, it is important that you let us know as soon as possible, as you may be able to arrange a payment variation.

### WHAT HAPPENS IF YOU DEFAULT AND YOUR PROPERTY IS SOLD?

If you default on your loan, your property might need to be sold. If the money received from the sale of your property is not enough to repay your outstanding loan, we (the lender) can make a Lenders Mortgage Insurance claim and the insurer will pay your lender the shortfall.

Once a claim has been paid, you (the borrower) continue to be responsible for the outstanding shortfall debt. Typically, this debt is passed on to the insurer by the lender and the insurer may seek to recover the outstanding shortfall debt directly from you (the borrower) and any guarantors.

### CASE STUDY - WHAT ARE THE BENEFITS OF USING LMI?

Jenny and Tom have found a home they want to buy for \$500,000. Typically, they would need a 20% deposit (\$100,000) to secure a loan from their lender. By taking out Lenders Mortgage Insurance, their lender is prepared to provide a loan up to 95% of the value of the home.

This means that Jenny and Tom can secure a home loan sooner with a 5% deposit (\$25,000) and stop paying rent. Their lender passes on the Lenders Mortgage Insurance premium cost to Jenny and Tom by way of a fee.

The Lenders Mortgage Insurance protects the lender if Jenny and Tom default on their loan repayments – it does not protect Jenny and Tom.