



<http://understandinsurance.com.au/types-of-insurance/lenders-mortgage-insurance>

Lenders Mortgage Insurance

Lenders Mortgage Insurance (LMI) is insurance that a lender (such as a bank or financial institution) takes out to insure itself against the risk of not recovering the full loan balance should you, the borrower, be unable to meet your loan payments.

It is important to understand LMI covers the lender, not you (or any guarantor).

LMI provides consumers with a benefit as it allows lenders to provide home loans to those who otherwise meet their lending requirements but who may still be rejected for a loan because they do not have a substantial deposit.

About 20 per cent of all mortgages are insured with an LMI provider

FAQ

Benefits of LMI

LMI provides greater access to home ownership, particularly for low income, low equity or higher-risk borrowers who might otherwise have difficulty obtaining a home loan.

These borrowers are able to obtain a loan that would otherwise not be available, or to obtain a loan much sooner than they would be able to if they had to save for a larger (more than 20 per cent) deposit.

By using LMI, lenders are able to pass on this risk to a mortgage insurer, which enables the lender to offer the same loan amount but with less of a deposit. This in turn may lower the cost of a loan, on the basis that lenders may elect not to charge a higher interest rate.

What is the purpose of LMI?

Lenders mortgage insurance protects a lender against financial loss if you default on your home loan and the property is subsequently repossessed and sold.

This kind of insurance covers the amount left to pay on the loan if the amount recouped from the sale of the property is not enough to pay off the loan in full to the lender.

What does LMI cost?

The LMI premium is payable at settlement by the lender, but usually passed on by the lender as a cost to the borrower. The cost varies depending on the lender, how much is borrowed and the size of the deposit.

The premium may be able to be included as part of the loan amount or paid upfront on settlement. Your lender can provide details of the likely costs after you have applied for the loan. On refinancing, LMI may be payable again (especially if you are increasing your loan amount).

What happens if I default and my property is sold?

If you, **the borrower**, have problems and cannot meet your loan repayments and no other resolution is found, your property may need to be sold to cover the outstanding loan amount. In this situation, sometimes the house is sold for less than the amount owing. The LMI insurer may pay your lender an amount in accordance with the LMI policy, and may then ask you, the borrower, to repay this sum directly to it.

Important: If you experience problems making your repayments, you need to contact your lender as soon as possible. You may be able to arrange a payment variation on the grounds of financial hardship.

What happens if I refinance my loan?

It isn't possible to transfer an LMI policy to another lender.

When you refinance, your original mortgage is terminated and you make a new loan arrangement and new mortgage with another lender.

You may therefore need to pay for a new LMI policy if you still have a low amount of equity in the property (you're borrowing more than 80 per cent of the property's value).

Is LMI refundable?

LMI may be partially refundable if the loan is terminated early in the life of the loan (usually the first year or two only). Each lender can provide details of its own refund arrangements.

What other forms of insurance do new homeowners need?

Consumers who are buying a home should consider other forms of insurance to protect their assets, in particular home and contents insurance.

Many different types of home building insurance policies are available to suit a very wide range of living circumstances, and Understand Insurance offers several calculators to help you work out if you have enough cover.

The [Insurance Council of Australia \[http://www.insurancecouncil.com.au/ \]](http://www.insurancecouncil.com.au/) runs [Find an Insurer \[http://findaninsurer.com.au/ \]](http://findaninsurer.com.au/), which may assist property owners identify insurers that offer the products they seek.

Where can I find out more information about LMI?

You can contact your lender, or visit [Moneysmart \[https://moneysmart.gov.au/ \]](https://moneysmart.gov.au/), the financial information website of the [Australian Securities and Investments Commission \[http://www.asic.gov.au/ \]](http://www.asic.gov.au/).