



LMI Insurance

What is Lenders Mortgage Insurance?

This type of insurance protects the lender – not the borrower – in the event that the borrower can't meet the loan repayments and the net proceeds of an enforced sale of the property would not be enough to cover the loan.

While it may appear that there are no benefits to LMI for the borrower, the existence of LMI reduces the lender's risk, which means that the lender can lend a larger amount or approve a home loan without the borrower having to provide the 20% deposit. Many people prefer to pay the LMI premium, rather than save for a few more years or pay higher interest rates.

How much does LMI cost?

The cost of LMI can vary depending on the percentage of the property value borrowed and the loan amount. The premium can also vary depending on whether your contribution is made up of genuine savings or has come from other sources, such as a gift.

For these reasons, an accurate cost of LMI cannot be given until a property and lender have been selected, and could be a flat fee of up to thousands of dollars.

The LMI premium is a one-off, non-refundable fee which is paid at loan settlement. For most lenders, the LMI fee can be included in the loan amount. If the LMI is added into the home loan amount, the borrower will pay interest on the total loan and it will increase the minimum monthly loan repayments.

LMI is arranged by the lender, not the borrower, although the borrower pays for it. Each lender has their own policy regarding when LMI is required and how much it will cost. If a borrower refinances their loan, the premium is not transferable. If LMI is required on the new loan, a new premium must be paid.

How can I avoid paying LMI?

One method to avoid paying LMI is to save up the minimum deposit for the property purchase. Alternatively, if your deposit is less than 20% but you have a guarantor for the property loan, you may be able to avoid paying LMI. Your guarantor can assist by providing additional security which reduces the LVR to 80% and therefore enables you to avoid paying LMI.

Is it better to pay LMI or wait until I have a bigger deposit?

The answer to this question will vary depending on your individual circumstances and goals. Your Mortgage broker can discuss your options with you and help you run the calculations to reach an informed decision.