



# Understanding LMI

Achieving the dream of home ownership can be one of the most exciting times in your life. It can also seem unattainable primarily due to the length of time it can take to save a substantial home deposit that is usually required by your lender.

**W**ithout a substantial deposit (typically 20% of the home's purchase price), there is a greater risk of loss for a lender if you default on your home loan. This is because the amount borrowed is high compared to the value of the property purchased. Many lenders are reluctant to lend in these circumstances, even if you have stable employment and could meet the mortgage repayments.

With the support of Lenders' Mortgage Insurance (LMI), a lender may be prepared to accept a smaller deposit and provide a home loan to you that might not otherwise be available. This is because LMI protects the lender if you default on the loan.

Although LMI protects the lender, you can also benefit from the use of LMI. In addition to obtaining a home loan that might otherwise not be available, by reducing the deposit required, you may be able to purchase a home much earlier and stop paying rent, or to buy a better property than otherwise might be the situation.

## **LMI protects the lender not you, the borrower.**

LMI is insurance that a lender takes out to protect itself against the risk of not recovering the full loan balance, if you, the borrower are unable to meet your home loan repayments and you default on the loan.

In these unfortunate circumstances, if the property is sold and there is a shortfall between the outstanding loan balance and the proceeds from the sale of the property, QBE LMI will pay this to the lender. It is important to understand that LMI protects the lender, not you the borrower or any guarantor.

## **LMI is a one-off cost paid at completion of your property purchase.**

The LMI premium is a once only cost payable by the lender when your property purchase is completed. It insures the lender against financial loss for the full term of your loan. Usually your lender will pass on the cost of the LMI premium to you, as the borrower, by way of an LMI fee. Other establishment fees may also be charged by your lender.

## **The cost of LMI**

The cost of LMI will depend on how much you borrow and how much of the purchase price you pay from your own funds. The more you contribute the lower the cost of LMI. Additional discounts or loadings may apply. Contact your lender, broker or financial adviser for a quote.

You may be able to capitalise the cost of the LMI fee into your loan. Your lender, broker or financial adviser will be able to provide details of what options are available to you.

## **For example:**

John and Sally have located a property they would like to buy, with a purchase price of \$650,000.

Traditionally they would require a 20% deposit (\$130,000) and borrow the difference of \$520,000 from a lender. With LMI, John and Sally can provide a 5% deposit (\$32,500) and borrow up to 95% (\$617,500) of the purchase price.

One of the benefits of LMI is that it allows John and Sally to purchase the property now and stop paying rent rather than waiting to save a larger deposit.

*Note: the above does not take into consideration any fees, charges or transaction costs.*





If you were to refinance your home loan to another lender or increase your loan amount, an LMI fee might be payable again.

Contact your lender, broker or financial adviser for more information on fees and charges.

#### **LMI might be partially refundable.**

LMI is generally not refundable. In some limited situations however, you may be entitled to a partial refund of the LMI fee from your lender if your loan is repaid in full in the first year (or, for some lenders only, second year) of the loan and all prior loan repayments have been made on time. This will depend on the arrangements between your lender and QBE LMI. Contact your lender, broker or financial adviser for more information.

#### **LMI is not the same as Mortgage Protection Insurance.**

LMI should not be confused with Mortgage Protection Insurance (MPI). MPI may make some of your mortgage repayments or pay a lump sum should certain specified events occur such as unemployment, sickness, disability or death. Please contact your lender, broker or financial adviser for more information concerning these products.

#### **Contact your lender as soon as you think you might have problems meeting your loan repayments.**

If you are suffering financial hardship or experiencing problems and you cannot make your loan repayments on time you should immediately contact your lender.

#### **You are still responsible if the proceeds from the sale of your property are not sufficient to repay the loan in full.**

If you default, your property might need to be sold. Sometimes the money received from the sale of your property might not be enough to repay the outstanding loan.

In this situation QBE LMI will pay the lender an amount in accordance with the LMI policy (normally the difference between the outstanding loan balance and proceeds from the sale of the property). Once an LMI claim has been paid, the outstanding debt owed by you is typically passed from the lender to QBE LMI. QBE LMI may then seek to recover the remaining debt from you the borrower and any guarantors.

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## **To find out more about LMI:**

- Contact your lender, broker or financial adviser
- Visit the QBE LMI website at [qbe.com/lmi](https://qbe.com/lmi)
- Visit the Australian Securities and Investments Commission's website at [moneysmart.gov.au](https://moneysmart.gov.au)

### **For example:**

John and Sally borrowed \$600,000 to buy a home valued at \$650,000. As their deposit was less than traditionally required, LMI was required and the LMI fee was capitalised into the Loan. (included in the \$600,000 borrowed).

Due to unforeseen circumstances, John and Sally are not able to meet their loan repayments, default on the loan and accumulate \$15,000 in unpaid interest. The end result being that the property is sold.

In this scenario the property sells for, say \$550,000. The outstanding loan balance is \$625,000 (which includes the amount borrowed, unpaid interest and other fees associated with selling the property) leaving a shortfall of \$75,000. QBE LMI pays the lender the shortfall. QBE LMI then has the right to seek repayment of the \$75,000 from John and Sally.