

Mortgage Insurance

Lenders mortgage insurance (LMI), is a one-off payment by the borrower to the lender (or lender's insurer) to "insure" a home loan. LMI insures the lender for any short fall on a home loan, so if you were sold up because of defaults, it covers the difference between what your property is sold for and the amount still owing. **Borrowers, be aware that lenders mortgage insurance does not provide any protection to you.** Lender's Mortgage Insurance insures the lender, not the borrower. LMI is generally fairly expensive (eg: Purchase price \$330,000 – Loan amount \$300,000 = LMI of \$3,900)

Typical LMI

If you have a No Deposit / 100% home loan or any kind of full verification loan with less than 20% deposit, you will almost certainly pay lender's mortgage insurance. Most Low Document Loans and Non Conforming Loans require LMI when you have a deposit of less than 40% (60% LMI).

The Lender chooses the LMI provider

Mortgage insurance is arranged by the lender, not the borrower, although the borrower pays for it. Most banks & lenders have their preferred mortgage insurance provider and you have no choice in who you deal with.

Note: if a mortgage insurance provider declines to issue the insurance for a loan, the lender will not proceed with the application.

How Much will the LMI be?

On fully verified 100% loans, dependent on the lender and the risk, mortgage insurance can cost up to 3% of the amount you are borrowing. Up to 95% loans (or 5% deposit), the amount would typically be up to 1.2% - 1.5% of the loan amount. As you get closer to 80% home loans (or 20% deposit), the cost usually discounts substantially. If you have 20% or more deposit and all other factors are in line, mortgage insurance is generally not charged. You need to speak to your mortgage broker or bank to find out the exact rate your LMI will be calculated on.

Roderick Storie Solicitors LMI Fact Sheet

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