WHAT IS LMI?

New research* suggests 2 in 5 prospective borrowers do not understand what Lenders Mortgage Insurance (LMI) is. LMI is designed to protect the lender if a borrower can't repay their mortgage and is required in many instances when a loan is worth more than 80 per cent of a property's purchase price, as well as in some other circumstances. In very basic terms, when a lender considers a loan to carry a high risk, LMI is likely payable. LMI is a once off payment (normally applied to your loan) and is the cost depends on a number of factors including:

- The amount of your loan
- The deposit or loan to value ratio
- Purpose of the loan (owner occupied or investment)
- Your employment status
- The insurer the lender uses

The Numbers

Paying for the lender to take out LMI means the homebuyer who is interested in a $550,000 property and facing the prospect of saving a $110,000 (20%) deposit could potentially only have to save $27,500 (5%). This means they can get into their home sooner, begin paying off their loan and potentially start building equity.

LMI premiums are based on a combination of factors that influence the risk of a borrower defaulting on their loan, but the key drivers are the amount of the loan and the value of the security. As an example, for a first homebuyer who wishes to purchase a $550,000 property and has a $55,000 deposit, Genworth's LMI Premium Estimator returns an indicative LMI premium of $9,504 – a small portion of the overall costs that will help you enter the market moths, or years, earlier then if you had to save the additional $55,000.

For a lot of borrowers LMI helps them get into a property sooner. Below are some tips for clients who would like to avoid paying LMI.

HOW TO AVOID PAYING LMI

Save for a higher deposit

The purpose of LMI is to protect lenders in case the borrower fails to make repayments and, when the loan-to-valuation ratio (LVR) exceeds 80 per cent, so the loan amount is more than 80 per cent of the value of the property being mortgaged, the risk of a lender not recouping their costs should the borrower default is increased. A higher deposit means a smaller loan amount, so will decrease the LVR and the perceived risk, and may be the key to avoiding paying LMI.

Get a guarantor

If you don't have the financial capacity to meet a 20 per cent deposit but still want to avoid LMI, you do have the option of getting a guarantor on your loan. Normally a close relative, such as a parent, guarantors can use the equity in their property to help you secure yours. In some instances, having a guarantor on your loan may mean that you won't need a deposit at all.

Take advantage of professional benefits

Although special offers based on the borrower's profession are not limited to medical professionals, doctors are the big winners when it comes to waived LMI fees. Due to the perceived stability and high income, some lenders consider professionals earning a minimum of $150,000 a year as 'low risk' borrowers and therefore offer them special loan benefits.

A little insider knowledge from an Mortgage & Finance Solutions Finance Specialist will go a long way in helping you find a loan that won't require you to fork out for LMI.

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