

Lenders mortgage insurance (LMI)

What is LMI?

You may have to pay for lenders mortgage insurance (LMI) if you borrow more than 80% of the value of your property. LMI protects the lender if you default on your loan and the sale of your property doesn't cover the value of the mortgage. Be aware that LMI doesn't protect you as the borrower if you're having trouble paying off your mortgage – this is called 'mortgage protection insurance'.

How much will it cost?

LMI can be a substantial cost. Premiums differ depending on the size of your loan, the size of your deposit, the insurer used and sometimes, your employment status.

Your LMI premium will be calculated using a Loan-to-Valuation Ratio (LVR); the higher the LVR, the bigger the premium. You can get an idea of the cost by using an online LMI calculator; however, speak to your Smartline Adviser for a personalised quote.

Strategies to reduce LMI

Saving

Saving for a 20% deposit is the simplest way to avoid paying LMI. First home buyers should also factor the First Home Owners Grant into their deposit (grants vary in each state/territory and on the type of property purchased). Even if your savings do not quite reach 20%, the closer you get to an 80% LVR, the cheaper your premium.

Seek assistance from family members

If you have parents or family members who are financially able to gift you money to help you reach a 20% deposit, this is one way to avoid LMI. Alternatively, a family member may be able to be a guarantor, which means if you default on your loan, they will bear the responsibility for repayments. There are usually some restrictions with these options, so be sure to speak with your Adviser.

Purchasing within your means

It may be worth purchasing a cheaper property to build equity, and upgrading later on. Your Adviser can help you work through this option.

All lenders are different

Lenders use different insurers so LMI costs may vary. Also, some occupations are considered by lenders to have less of a risk of job loss. Your Smartline Adviser can talk you through your options with different lenders.

Tips to minimise or avoid LMI:

- Save 20% on the cost of the purchase price. You may be able to use the First Home Owners Grant to help you reach a 20% deposit.
- Talk to your family. Family members can assist with a cash gift or family guarantee.
- Talk to your Smartline Adviser about LMI rates, which vary between lenders.
- Buy within your means. Consider buying a cheaper property to build equity, then upgrade.

Need help?

This sheet provides general information only and is correct as at the document date (20/11/2018). Please refer to your Smartline Adviser for full details.

