

## Lenders Mortgage insurance (LMI)

Lenders Mortgage Insurance (LMI) is often mistaken for “Loan Insurance or Income Protection Insurance”. It is definitely not even remotely the same! Many people have the misunderstanding that LMI is set up to protect them in some way, when in fact it has been set up to protect the bank. (And the borrower pays for it!) To explain, - LMI is a tool used by banks and lenders to lower their risk/exposure should the loan go into arrears which in turn may force the property to be sold. If the property is sold for LESS than what is owed to the bank, this loss is covered by this insurance (the insurer will pay any loss to the bank, then the insurer will chase the consumer/mortgagor for the entire loss) For example:



<i>House purchased in 2013 for</i>	<i>\$450,000</i>
<i>House sold in 2016 for</i>	<i>\$420,000</i>
<i>Loan owed at time of sale</i>	<i>\$435,000</i>
<i>Loss to bank</i>	<i>\$ 15,000 (plus fees &amp; legals)-payable by borrower</i>

In Australia, the banks and Lenders don't really lose from a home loan that goes bad or even becomes a “Mortgagee in Possession”, because they are insured on every loan. (Normally, the banks/Lenders pay for the insurance (or ware the risk) if the initial loan amount is under 80% of what the property is worth and the borrower pays for the insurance if the loan amount is higher than 80% of the purchase price.) The LMI is a “once off” payment normally paid by the borrower at settlement of the loan.

The amount of this fee could be thousands of \$\$, depending upon how big your loan is and how much you are actually borrowing against the property. Your EZ Finance broker can give you a good indication if LMI is payable, how much it might be and also what you can do to minimise this fee.

An LMI policy is specific to each loan and the insurance policy lasts for the entire term of that loan. If you sell your home (or re-finance) and apply for a new loan against a new property, a NEW LMI premium may be payable if you borrow more than 80% of the property purchase price or value.

If your home loan is discharged within the first year of inception, you may also be entitled to a part refund of the LMI premium paid. All Banks and Lenders are different, so you will need to speak with your bank or Lender directly if this should occur.

Disclaimer: The comments on this form are a guide and for general advice only and should not be relied upon as specific advice for your current financial situation. Please speak with a professional Credit Advisor, Accountant or Financial Planner to ensure you get the right advice specific to your personal circumstances. EZ Finance holds a National Credit Licence (392611) and our credit advisors are members of MFAA, FBAA and CIO.