

WHAT IS LENDER'S MORTGAGE INSURANCE?

Lender's Mortgage Insurance (LMI) is insurance cover taken out by the lender to protect themselves against any financial loss or shortfall should you, the borrower, not be able to meet the repayments on the loan.

If the the mortgaged property is required to be sold as a result of a repayment default, and the funds from the sale do not cover the balance outstanding on the loan, LMI covers the lender for these losses or shortfalls.

Specifically, LMI covers the lender's loss of principal, unpaid interest, and all reasonable recovery costs such as legal fees, marketing costs, repairs, maintenance, and potentially outstanding rates.

If a Mortgage Insurer has indemnified the lender under the terms of the policy, they will then seek to recover those funds from you, the borrower or any associated guarantors.

KEY BENEFIT FOR THE LENDERS

It gives the lender the confidence to approve more mortgages and enhances their ability to lend to a broader range of customers.

KEY BENEFIT FOR BORROWERS

It gives you the ability to purchase a home or an investment property sooner, allowing low deposit or borrowers with limited income verification, to get into the property market.

QUESTION & ANSWER GUIDE

WHO IS INSURED?

It is actually the lender, and not the borrower, who is covered by LMI. Where a claim for loss is paid to the lender, the Mortgage Insurer will seek recovery from the borrower or any guarantors, for the balance of the loss outstanding.

LMI should not be mistaken as Mortgage Protection Insurance, which covers the borrower in the event of death, sickness, unemployment or disability. Although they sound similar, they are two totally different insurances.

WHY DOES A LOAN REQUIRE LMI?

A lender will insure a loan so they can advance a higher portion of the purchase price or so they can lend in situations that are deemed to be riskier than normal (eg. Low Document Loans). You will even find that some lenders will insure all loans, regardless of the desposit or type of loan, achieving an extra sense of protection to their investors and stakeholders. In this situation, the premiums and charges are paid by the lender and therefore the LMI arrangements are quite inconspicuous to the borrower.



CAN ALL LOANS BE INSURED?

A mortgage insurer will provide insurance to the lender for most residential mortgage loans. These include:

- OWNER OCCUPIER LOANS OR PROPERTY INVESTMENT LOANS
- CONSTRUCTION LOANS AND HOME IMPROVEMENT OR EXTENSION LOANS
- PRINCIPAL AND INTEREST LOANS OR INTEREST ONLY LOANS
- LOW DOC LOANS

Borrowers are required to demonstrate their ability to meet regular repayment requirements, and the property will need to be of an acceptable standard. Most types of security are acceptable including freestanding dwellings, semi-detached and terrace houses, home units, townhouses, villas and vacant land. Most titles are acceptable, including Torrens, Strata and Community titles. Leasehold and other titles may also be acceptable.

WHAT COSTS ARE INVOLVED?

Unlike traditional insurance products, there is a once-only premium payable. This is payable when the loan funds are advanced and provides cover for the full term of the loan. The cost of LMI varies depending on the amount of the loan, the level of equity in the security property or the lender's product requested. Often, if a loan amount is less than 80% of the value of the property, LMI is not required or will be paid by the lender. The general exception to this is in the event of a Low Doc loan which generally attracts mortgage insurance regardless of the equity or loan amount.

HOW IS LMI ARRANGED?

The lender will organise this through a mortgage insurer who they have a relationship with. The lender will prepare all the necessary information and documentation in order to arrange LMI. They will advise the borrower whether or not their loan requires LMI, the cost and any additional information which may be required.

ARE GST AND STAMP DUTY PAYABLE?

GST and Stamp Duty, where applicable and are payable on LMI premiums. This will already be included in the total premium quoted by the lender.

IS THE PREMIUM REFUNDABLE IF THE LOAN IS REPAYED EARLY?

A partial refund of the insurance premium may be applicable if the loan is repaid within 2 years.

HOW DO I FIND OUT MORE?

*To find out more about **Mortgage Insurance** or for any other **Loan Enquiries**, call your alphaLEND Representative.*

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