Mortgage Choice

Better choices for a better life

Lenders Mortgage Insurance

What is Lenders Mortgage Insurance?

When borrowing more than 80% of a property's value, it is generally a condition of the loan that the borrower pays Lenders Mortgage Insurance (LMI). This type of insurance protects the lender – not the borrower – in the event that the borrower cannot meet the loan repayments and the net proceeds of the enforced sale of the property are insufficient to cover the loan.

Why should the borrower pay to insure the lender?

While it may appear that there are no benefits to LMI for the borrower, the existence of LMI reduces the lender's risk, which means that the lender can lend a larger amount or approve a home loan without the borrower having to provide the 20% deposit. Many people prefer to pay the LMI premium, rather than save for a few more years or pay higher interest rates.

This table below shows what the minimum deposit would be if you paid LMI or if you avoided LMI by saving a 20% deposit.

How much does LMI cost?

The cost of LMI can vary depending on the percentage of the property value borrowed and the loan amount. The premium can also vary depending on whether your contribution is made up of genuine savings or has come from other sources, such as a gift. For these reasons, an accurate cost of LMI cannot be given until a property and lender have been selected, and could be a flat fee of up to thousands of dollars.

The LMI premium is a one-off, non-refundable fee which is paid at loan settlement. For most lenders, the LMI fee can be included in the loan amount. If the LMI is added into the home loan amount, the borrower will pay interest on the total loan and it will increase the minimum monthly loan repayments.

LMI is arranged by the lender, not the borrower, although the borrower pays for it. Each lender has their own policy regarding when LMI is required and how much it will cost.

If a borrower refinances their loan, the premium is not transferable. If LMI is required on the new loan, a new premium must be paid.

How can a borrower avoid paying LMI?

One method for a borrower to avoid paying LMI is to save up the minimum deposit for the property purchase.

Alternatively, if a borrower has less than 20% deposit saved, but they have a guarantor for the property loan, the borrower may be able to avoid paying LMI. The guarantor can assist the borrower by providing additional security which reduces the LVR to 80% and the borrower can avoid paying LMI.

What is Loan to Valuation Ratio (LVR)

Commonly called LVR, the ratio is the home loan amount compared to the valuation of the security. For example, a loan of $270,000 on a home valued at $300,000 would be calculated using the following formula: $270,000 divided by $300,000 then multiplied by 100, and expressed as a percentage i.e. 90%.

Previous position / current home loan	Minimum deposit with LMI	Minimum deposit without LMI
$200,000	$10,000	$40,000
$300,000	$15,000	$60,000
$400,000	$20,000	$80,000
$500,000	$25,000	$100,000
$600,000	$30,000	$120,000
% of purchase price	5%	20%

*Based on a loan at 95% Loan to Valuation Ratio (LVR). These figures will change if a borrower is approved for a lower LVR. Note that the minimum deposit does not include the costs of LMI. Generally only 5% needs to be genuine savings. Funds to cover fees, etc can come from other sources such as the First Home Owner Grant.