

# Lenders Mortgage Insurance (LMI)

## Introduction: What is LMI?

- Lenders Mortgage Insurance, commonly known as LMI, is a one-time fee that lenders charge borrowers who finance more than 80% of their property's value. This insurance protects the lender against potential losses if the borrower defaults on the loan.

## The Upsides of LMI:

1. **Access to Home Loans:** LMI enables lenders to offer loans to borrowers who may not have a large deposit but still meet creditworthiness criteria.
2. **Financial Security for Lenders:** LMI covers any remaining loan balance if the property's sale doesn't fully repay the loan.

## Cost Implications of LMI:

1. **Payment Options:** You can either pay the LMI premium upfront at settlement or roll it into your total loan amount, known as LMI capitalisation.
2. **Effect on Loan Repayments:** If you opt for LMI capitalisation, your monthly repayments will be calculated based on this higher loan amount.
3. **Variable Costs:** The cost of LMI can differ based on multiple factors such as the lender, the amount borrowed, and the size of your deposit.

## Is LMI Refundable?

1. **Early Termination:** LMI might be partially refundable if you terminate the loan within the first two years.
2. **Lender-Specific Policies:** Refund policies can vary from one lender to another.

## Consequences of Defaulting on Loan:

1. **Property Sale:** If a borrower fails to make repayments and no alternative solutions are available, the property may be sold to recover the outstanding loan amount.
2. **Role of LMI Insurer:** After compensating the lender according to the LMI policy, the insurer may seek reimbursement from the borrower.
3. **LMI Limitations:** LMI does not cover borrowers' repayments in case of default. For such scenarios, consider Mortgage Protection Insurance.

## What Happens When You Refinance?

1. **LMI Reapplication:** LMI is specific to each lender. If you switch lenders and borrow more than 80% of your property's value, you'll incur LMI charges again.
2. **Cost-Benefit Analysis:** Research thoroughly, as the cost of a new LMI might negate the benefits of a lower interest rate.
3. **Equity Considerations:** If you've built enough equity or reduced your loan's principal, you might avoid LMI when refinancing by borrowing less than 80% of the property's value.

## Proactive Measures for Financial Hardship:

- If you face difficulties in meeting your loan repayments, contact your lender immediately. You might be eligible for a payment variation based on financial hardship.
- For more details on LMI, visit [MoneySmart](#) or [ASIC](#).