



# Understanding LMI



Achieving the dream of home ownership can be one of the most exciting times in your life. It can also seem unattainable primarily due to the length of time it can take to save the substantial home deposit that is usually required.

With the support of Lenders' Mortgage Insurance (LMI), we may be able to accept a smaller deposit and provide a home loan to you that might not otherwise be available for some time. LMI protects us, as the lender however, you can also benefit from the use of LMI. In addition to potentially obtaining a home loan with a smaller deposit than is usually required, you may be able to purchase a home now and stop paying rent or buy property sooner than otherwise expected.

## **LMI protects us, as the lender not you, the borrower.**

LMI is insurance that is taken out to protect P&N Bank against the risk of not recovering the full loan balance, if you, the borrower are unable to meet your home loan repayments and you default on the loan.

In these unfortunate circumstances, if the property is sold and there is a shortfall between the outstanding loan balance and the proceeds from the sale of the property, the LMI provider will pay this shortfall to us. It is important to understand that LMI protects us, as the Lender, not you the borrower or any guarantor.

## **LMI is a one-off cost paid at completion of your property purchase.**

The LMI premium is a cost payable when your property purchase is completed. The cost is a once off fee that covers the full term of the loan. It insures us against financial loss for the full term of your loan. The cost of the LMI premium will be passed on to you by way of an LMI fee. The LMI fee will vary depending on the borrowing amount and security value. LMI fees or amounts paid are not transferrable between lenders. The lender will pay the LMI premium to the insurer at settlement of your home purchase.

## **LMI vs building insurance**

Building insurance – protects the property in the event of fire, flood and storm damage. Cover types vary between general insurance providers. It is a condition of P&N Bank loans that mortgage secured properties are insured for a minimum cover amount listing P&N as the finance/interested party.

### **For example:**

John and Sally have located a property they would like to buy, with a purchase price of \$650,000. Traditionally they would require a 20% deposit (\$130,000) and borrow the difference of \$520,000 from us, their lender. With LMI, John and Sally can provide a 5% deposit (\$32,500) and borrow up to 95% (\$617,500) of the purchase price. One of the benefits of LMI is that it allows John and Sally to purchase the property now and stop paying rent rather than waiting to save a larger deposit.

Note: The above does not take into consideration any fees, charges, transaction costs or P&N Bank's maximum loan to valuation rules.



### Does the bank get a commission on LMI?

We do not receive any commission on LMI premiums, this cost is paid to our insurer to protect P&N Bank.

### The cost of LMI.

The cost of LMI will depend on how much you borrow and how much of the purchase price you pay from your own funds. The more you contribute the lower the cost of LMI. Additional discounts or loadings may apply, so speak to either us as your banker, or your broker or financial adviser for a quote. The LMI fee will be capitalised to your new loan. If you were to refinance your home loan to another lender, an LMI fee might be payable again. For more information on fees and charges speak to us, or your financial advisor or broker.

### LMI might be partially refundable.

LMI is generally not refundable. However, in some limited situations you may be entitled to a partial refund of the LMI fee, depending on the arrangements between your lender and LMI provider. We suggest you speak to your financial advisor or broker for more information.

### LMI is not the same as Mortgage Protection Insurance.

LMI should not be confused with Mortgage Protection Insurance (MPI). MPI protects you, the borrower, in certain circumstances by making some of your mortgage repayments or paying a lump sum should certain specified events occur such as unemployment, sickness, disability or death. Mortgage Protection Insurance can reduce the risk of some unforeseen circumstances by providing protection for the borrower. P&N does not offer MPI and it is not compulsory.

Contact us as soon as you think you might have problems meeting your loan repayments. If you are suffering financial hardship or experiencing problems and you cannot make your loan repayments on time you should immediately contact us to discuss your situation.

You are still responsible if the proceeds from the sale of your property are not sufficient to repay the loan in full. If you default on the loan and your property needs to be sold, sometimes the money received from the sale of your home will not be sufficient to repay the outstanding loan. In this situation the LMI provider will pay us, P&N Bank an amount in accordance with the LMI policy (normally the difference between the outstanding loan balance and proceeds from the sale of the property). Once an LMI claim has been paid, the outstanding debt owed by you is typically passed from us to the LMI provider. The LMI provider may then seek to recover the remaining debt from you, the borrower, or any guarantors.

### For example:

John and Sally borrowed \$600,000 to buy a home valued at \$650,000. As their deposit was less than traditionally required, LMI was required and the LMI fee was capitalised into the loan (included in the \$600,000 borrowed). Due to unforeseen circumstances, John and Sally are not able to meet their loan repayments, defaulting on the loan and accumulating \$15,000 in unpaid interest. The end result being that the property is sold. In this scenario the property sells for \$550,000. The outstanding loan balance is \$625,000 (which includes the amount borrowed, unpaid interest and other fees associated with selling the property) leaving a shortfall of \$75,000. The LMI provider pays the lender the shortfall. The LMI provider then has the right to seek repayment of the \$75,000 from John and Sally.

### To find out more about LMI:

- Give us a call or contact your financial advisor or broker
- Visit the Australian Securities and Investments Commission's website at [moneysmart.gov.au](http://moneysmart.gov.au)
- Visit the QBE LMI website at [qbe.com/Imi](http://qbe.com/Imi). QBE Lenders' Mortgage Insurance Limited ABN 70 000 511 071, Australian Financial Services Licence and Australian Credit Licence 393812, issues lenders mortgage insurance to lenders and not the borrower.

