What is Lenders Mortgage Insurance (LMI)?

People's Choice
Banking for life

LMI is an insurance required by the lender for home buyers who aren't able to provide the minimum deposit required to avoid mortgage insurance. This is usually a 20% deposit which gives you a Loan to Value Ratio (LVR) of 80%. If a home buyer has a small deposit and the LVR is over 80% the loan is considered to be a higher risk to the lender.

LMI isn't insurance for you (the home buyer) or your guarantor; it's an insurance policy that covers the lender against loss in the event that you can no longer meet your loan repayments. The premium is a once off payment paid by you, at settlement and is usually added to the home loan.

If your deposit is less than 20% you are most likely going to have to pay LMI. For example, if you want to buy a house for $500,000 but have only saved $50,000, you have an LVR of more than 80% as you need to borrow more than 80% of the value of the house.

How does it work?

In the unfortunate event that you are no longer able to pay your home loan repayments, your house may be sold. If the proceeds of the sale do not cover the full amount you owe to the lender, the difference is covered by the LMI provider. The LMI provider may then seek to recover the gap from the borrower.

How does it benefit me?

The main benefit of LMI is for the lender, as they are protected should you not be able to pay off your loan. However, LMI also means your savings journey will be shorter as you may be able to provide a smaller deposit for your dream home which means you'll be in the property market quicker. This could mean you can stop paying rent earlier or you could buy yourself a better property than you thought possible.

What is the cost of LMI?

The cost of LMI depends on how much you want to borrow and how much deposit you have. The bigger the deposit, the lower the cost of LMI. Additional discounts or loadings may apply, so have a chat to your Home Loan Adviser (HLA) about what is possible for you. Usually the LMI fee is added to your loan but you can choose to pay from your own money if you wish. If the cost of LMI is added to your loan, we will tell you what that cost is. Keep in mind that if you add the cost to your loan, you will pay interest on this over the life of your loan. Again, your HLA will be able to provide details of what options are available to you.

Keep in mind that LMI is generally non-refundable and it can't be transferred. This means if you decide to refinance your home loan with another provider, you may need to pay LMI again depending on your financial situation. However, if the LMI policy provides an entitlement to a refund if you repay your loan before the end of the policy, we will ensure that we claim a refund where available and pay that amount to you.

We will not charge you more than the actual cost we incur for LMI. We will not receive a commission from the issuer of the LMI policy.

How do I avoid paying LMI?

To avoid LMI, aim to save enough money to cover at least 20% of the property price as well as other Government fees such as stamp duty. Another way to avoid paying LMI is to find a guarantor. A guarantor takes the risk if you are no longer able to afford your home loan. This is a common option for first home buyers as it can be hard to save 20% for your first home.

People's Choice Credit Union, a trading name of Heritage and People's Choice Ltd ABN 11 087 651 125, Australian Financial Services Licence 244310 and Australian Credit Licence 244310. In this document, People's Choice Credit Union is referred to as People's Choice.
DIN_BRC.00.00.002 V1.0_0324