LMI Factsheet

Version 0.1

Purpose of this factsheet

When buying a property, you are typically required to have saved a deposit of at least 20% of the purchase price, plus enough to cover the additional upfront costs such as stamp duty and legal fees to avoid paying Lenders Mortgage Insurance (LMI). If you don't have the full amount required, we face an increased risk when we lend to you. This is because we have less security to protect us if you can't meet your repayment obligations for the home loan. This guide will outline information on LMI as a potential option for low deposit loans.

LMI protects Unloan from low deposit risks

Unloan offers LMI if you have a low deposit (standard lending criteria applies).

LMI protects us from the risk associated with a low deposit home loan, however it does not protect you.

What is LMI?

LMI is a product which protects us in the event that you are unable to repay your home loan. The circumstances of your loan will determine whether a loan incurs LMI.

Financial cost

There is a cost for LMI. It is calculated based on the size of your deposit, how much you borrow and the property's value. The more you contribute to the purchase price of your property, the lower the cost will be. LMI costs will vary depending on the circumstances of each new home loan application. This also includes if you restructure your home loan, top it up or refinance in the future.

Important: There may be additional factors that could influence the total costs involved and is based on the individual circumstances of your home loan.

LMI Premiums

All LMI premiums are capitalised (added) to the total home loan amount when your home loan is settled. This means you'll pay more interest over the agreed contracted loan term.

It's a one-off non-refundable, non-transferrable insurance premium which we collect (from you) and pass on to our insurance provider Helia Insurance Pty Limited (Helia), Australia.

Risks & Considerations

If you are unable to make your home loan repayments and have no remaining financial hardship solutions, you may be required to sell your property (we may step in to assist with the sale of the property). In the situation where the proceeds from the sale are insufficient to pay off the loan in full then the LMI provider (Helia) will cover us (Unloan) for the shortfall in accordance with the LMI policy. Helia may then seek to recover the remaining shortfall debt from any borrower(s) (you).

Example of how LMI works

Leah and Taylor have a $60,000 (approx.10%) deposit for a $500,000 property and additional funds to put towards their upfront costs (such as stamp duty and legal fees). LMI is applicable as they want to borrow more than 80% of the property value.

$$\frac{\text{Loan: } \mathbf{\$440{,}000}}{\text{Value of Property: } \mathbf{\$500{,}000}} \times 100\% = 88\% \text{ Loan to Valuation ratio (LVR)*}$$

The LMI premium is calculated and capitalised (added) to the home loan balance.

New loan amount: $440,000 + LMI $6,000 + Mortgage Registration Fee $154.20 = $446,154.20

$$\frac{\text{Loan: } \mathbf{\$446{,}154.20}}{\text{Value of Property: } \mathbf{\$500{,}000}} \times 100\% = 89.2\% \text{ Loan to Valuation ratio (LVR)*}$$

Leah and Taylor proceed with their property purchase (including LMI) and pay the **$60,000 deposit** to the vendor. They use the rest of their savings to cover upfront costs such as stamp duty and legal fees.

*Loan to Value ratio (LVR): The total you've borrowed for your loan as a percentage of your property value.

2 years later Taylor is made redundant, and they are unable to keep up with their repayments, resulting in defaulting on their home loan.

After exhausting all their financial hardship options^, Leah and Taylor are required to sell their property. Due to a market downturn, the property is sold at a lower price.

	Amount
Sale price of the security property	$420,000
Outstanding loan amount	$440,000
Accumulated compounded unpaid interest over 12 months	$14,000
Recovery costs (e.g. legal fees)	$5,000
Total shortfall debt from sale of property	$39,000

In this scenario, the property sells for $420,000, however the outstanding loan balance is $459,000 (including unpaid interest and associated recovery costs). This leaves a shortfall debt of $39,000.

As the loan is insured by our LMI provider (Helia), Unloan would submit a claim to have the loss of $39,000 covered by Helia. After Helia pays the claim to Unloan, Helia have the right to recover the shortfall from Leah and Taylor.

Common questions

Reducing or avoiding the cost of LMI

To reduce or avoid paying the LMI premium you may consider saving up and having a larger deposit. At Unloan, LMI premiums are charged where the Loan to Value ratio (LVR) is between 80% and 90%.

What is a shortfall debt?

A shortfall debt arises where the proceeds from the sale of a property are insufficient to fully repay the home loan. The borrower(s) are liable to pay the shortfall debt. Having a smaller deposit means there is a smaller buffer against possible adverse movements in the property market, which can increase the possibility of a shortfall debt on the sale of a property.

What happens if I have LMI and I want to sell or refinance my property after a few years?

Our LMI insurance premium is non-refundable and non-transferable. This includes if you:

- Choose to pay out, close or refinance your home loan early; and/or
- The LVR of your home loan drops below 80% after settlement

Note: if you have LMI on one home loan and want to apply for another home loan, you'll most likely have to pay for LMI again if your LVR is greater than 80% (or in some circumstances lower). Each LMI premium is unique and covers that particular home loan only.

Is the LMI premium refundable?

No, it is a one-off non-refundable, non-transferrable charge.

Contact Us

If you have any questions:

Chat

Chat to us live anytime between:

8am-6pm (AEST), Monday to Friday
10am-6pm (AEST), Saturday & Sunday

Search "Unloan Contact Us" in your browser

Phone

Call us on 1300 630 000 to request a call back.

Email

Message us at hello@unloan.com.au

Things you should know

This guide doesn't consider your individual objectives, financial situation or needs. Before basing any decisions on this information please:

- Consider its appropriateness to your circumstances.
- Consider obtaining professional advice specific to your needs, including financial, taxation and legal advice.

Loan applications are subject to credit approval and any loan offer includes full terms and conditions. Fees and charges apply – see our fees and charges brochure. All examples and scenarios are illustrative only. This fact sheet is subject to change without notice. Unloan, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL / Australian credit licence 234945. Helia Insurance Pty Limited ABN 60 106 974 305.