MyState Bank

Lenders Mortgage Insurance (LMI) Customer Fact Sheet

What is LMI?

As a home buyer, you may have heard the term Lenders Mortgage Insurance or LMI as it is typically referred to, but may be wondering what it is and why you need it. In short, LMI is insurance that covers your financial provider (in this case, MyState Bank) for risk of loss on the sale of security in the event you default on your home loan.

How does LMI benefit me?

If you have a smaller deposit (less than the 20% typically required by lenders including MyState Bank), LMI may allow you to still enter the property market.

Who does LMI protect?

It is important to understand that LMI covers MyState Bank, not you or your guarantor. If your property is sold, and the amount from the sale is not enough to repay your outstanding loan balance in full, this insurance will cover MyState Bank for the shortfall.

When is LMI paid?

The one off LMI premium may be able to be included as part of the loan amount or be paid upfront on settlement.

What does LMI cost?

The cost of LMI varies depending on a number of factors, including the amount of the loan, the value of the property, how much you have saved and the type of loan product you choose.

During the loan application process, your lender can provide details of likely costs, such as conveyancing and stamp duty. To avoid LMI, these costs will need to be saved in addition to your 20% deposit.

The Loan to Valuation Ratio (LVR) is the loan amount divided by the value of your property. Typically an LVR of over 80% requires LMI, for example:

House price (assumed value)	$300,000 –
Deposit saved	$30,000
Loan amount	**$270,000**
	$270,000 ÷
	$300,000
LVR	**90%**
LMI ***WILL BE*** required	

House price (assumed value)	$300,000 –
Deposit saved	$70,000
Loan amount	**$230,000**
	$230,000 ÷
	$300,000
LVR	**77%**
LMI ***WILL NOT*** required	

On refinancing from another lender, LMI may be payable again, especially if the LVR is over 80%. If you seek to increase your existing MyState Bank loan, your LMI premium may increase.

MyState Bank will only charge you the actual cost of the LMI as issued by the LMI provider. If you take the option to include the LMI premium as part of your loan amount, this amount will accumulate interest just like the rest of your loan.

Is LMI refundable?

A partial refund of the LMI premium may be applicable if the loan is repaid within the first 12 – 24 months (dependent on the LMI provider). There is an obligation on MyState Bank to notify the LMI provider of the loan being repaid, then any partial refund is at the discretion of the LMI provider.

What happens if I default on my loan and my property is sold?

If you, the borrower, have financial difficulties and can no longer meet your loan repayments and all other financial hardship avenues have been exhausted, your property may need to be sold to cover the outstanding loan amount. In this situation, sometimes your property is sold for less than the amount outstanding on the loan. Should this be the case, MyState Bank is entitled to make an insurance claim to the LMI provider for the reimbursement of any shortfall. Where a claim for loss is paid to MyState Bank, the LMI provider may seek recovery from the borrower, or any guarantor, for any shortfall amount.

I already have consumer credit insurance. Why do I need LMI?

LMI and consumer credit insurance serve two very different purposes:

- LMI covers MyState Bank against a loss should you default on your home loan. It protects MyState Bank for the shortfall in the event the security property is subsequently sold for a lesser amount than the amount outstanding on the loan.
- Consumer credit insurance covers you by paying your loan repayments, if, for example you were temporarily or permanently incapacitated.

IMPORTANT

If you experience problems making your repayments, you need to contact us as soon as possible as we may be able to arrange a payment variation on the grounds of financial hardship.

Case Study 1

Stephen and Joanne are buying their first home and have found a property valued at $300,000. They have managed to save just over $30,000 for their deposit, plus enough to cover the costs associated with the purchase, such as stamp duty. Their lender has advised that, as they don't have a 20% deposit, they can choose to:

- Delay purchasing a home for the same price and continue to save until they have a 20% deposit, **OR**
- Purchase this home now by paying for LMI, **OR**
- Purchase a home for a lower price now without the need for LMI.

Stephen and Joanne are keen to buy this new home as soon as possible. After discussing the situation further with their lender, they agree they would have difficulty saving a further $30,000 to meet the 20% deposit requirement while continuing to pay rent. They decide to pay for LMI and buy their home now to start building equity.

Case Study 2

Peter is buying a property valued at $300,000. Peter has a $40,000 deposit saved, plus enough to cover the costs associated with the purchase. As Peter's deposit is less than MyState Bank's requirements without LMI, Peter decides to proceed with the loan for $260,000 and adds the LMI premium onto the amount borrowed.

Peter then becomes unemployed and defaults on his repayments. Peter does not have consumer credit insurance to cover his repayments. After all avenues (including hardship assistance) are exhausted, the last resort for MyState Bank is to repossess the property and despite best endeavors, can only sell it for $240,000, leaving a difference of $20,000. Under the LMI policy, the LMI provider pays MyState Bank $20,000. The LMI provider then has the right to pursue Peter to repay this amount directly to them.