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Lenders Mortgage Insurance Makes All The Difference

Many years ago, if you did not have a big deposit and you needed to borrow more than sixty or seventy percent of the value of your home, the answer was either "No" or you were forced to take an expensive second mortgage to make up the difference.

In 1965 in response to this problem, the then Menzies Government established HLIC (Housing Loans Insurance Corporation of Australia) so that Australians could borrow for housing at more affordable rates. By the time HLIC was sold off in 1997 they had insured 1.3 million loans.

Over the next few years, other insurance companies came into our market offering this product. Not surprisingly, given our high property prices, the demand for Lenders Mortgage Insurance continues to grow.

Originally this insurance was called Mortgage Guarantee Insurance, but because of the confusion that name caused, the product was re-branded Lenders Mortgage Insurance some time ago.

So, what is Lenders Mortgage Insurance (LMI) and how does it work?

As the name suggests this is an insurance policy that protects the ***lender*** as the insured party against loss should the borrowers not be able to pay and the subsequent sale of the security property does not raise enough money to clear the debt.

This insurance is specified by the lender when lending an amount close to the value of the property being purchased, for example a home loan where the amount of the loan represents 80% or more of the valuation of the property. As this size loan is a higher risk for the lender, they ask for this additional protection to pay them out should the loan not be paid back.

Lenders Mortgage Insurance is usually charged as a one-off premium and is calculated on a sliding scale. So, the greater the percentage of the property value borrowed and the more money involved, the higher the premium payable. The premium is usually paid upfront when the loan is settled.

Understand though that this is the only kind of insurance where the borrower pays both the premium and potentially the claim as well. In other words if the lender has a loss of say $2,000 after the forced sale of the property, the lender claims $2,000 against the LMI policy. If the insurer then pays out the lender's loss, the insurer may then come after the borrowers personally to make good the $2,000 they have paid the lender.

The reality is, without this insurance the loan won't be approved in the first place but people need to understand the consequences if they can't pay their loan, the house is repossessed and sold, and there is a shortfall for whatever reason.

For further information, please don't hesitate to call AlphaLoan today so we can match your needs against 100's of home loans from our panel of lenders, including all the major banks and many more!

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