KEY FACT SHEET:
BORROWER FREQUENTLY ASKED QUESTIONS FOR LENDERS MORTGAGE INSURANCE (LMI)

WHAT IS LENDERS MORTGAGE INSURANCE (LMI)?

LMI is insurance that a lender takes out to insure itself against the risk of not recovering the outstanding loan balance if you, the borrower, are unable to meet your loan payments and the property is sold for less than the outstanding loan balance plus claimable costs. It is important to understand that LMI covers the lender as the insured party and beneficiary of the insurance cover, not you (or any guarantor), even though the lender will usually pass on the cost of LMI to you. This means you cannot make a claim under the LMI – only the lender can make a claim. LMI is not mortgage protection insurance, which a borrower might separately take out to insure themselves against the risk of not being able to meet their loan payments (due to events like death, sickness, unemployment or disability).

HOW DOES LMI HELP ME?

LMI helps people buy homes. Without LMI, the lender may decide not to make the loan where other requirements are met. If you want to buy a property and otherwise meet lender requirements, but do not have a substantial deposit (usually 20%), it can be difficult to find a lender who will lend to you. If you are in this situation, LMI helps make it easier for you to obtain mortgage finance. LMI does this by reducing the risk of loss to the lender if you stop paying your loan repayments. Because LMI reduces the risk for the lender, it makes them more likely to lend to you even though you do not have a substantial deposit at the outset. It should be noted that having a smaller deposit means there is a smaller buffer against possible adverse movements in the property market, which increases the possibility of a shortfall debt on the sale of the property.

HOW IS THE LMI PREMIUM P AID?

The lender will pay the LMI premium to the insurer at settlement of your home purchase. This once off up-front payment covers the lender for the life of the loan (which can be up to 30 years). The amount of the LMI premium will depend on the lender, how much it lends to you and the size of your deposit, as well as the level of risk associated with the particular loan product. GST is payable, and stamp duty may also be payable (and varies according to the State or Territory location of the security property) and these amounts will be included in the cost.

The lender will normally pass on the cost of this LMI premium to you as a fee. This is because the cost of buying LMI is a part of the lender's costs of providing loan finance to you. You can pay this cost to the lender at settlement or you may be able to include the cost as a part of the loan (so the cost of LMI will be added to your loan repayments over the term of your loan). If your loan is restructured or increased in the future, a new or additional cost or new LMI policy may also be applicable at that time.

If the restructure or increase to your existing loan means that an LMI policy is no longer required by the lender, any existing LMI policy may be terminated. Your lender, broker or financial adviser will be able to provide details of what options are available for you.

IS THE PREMIUM REFUNDABLE IF THE LOAN IS REPAID EARLY?

ANZ may (but is not required to) give you a partial refund of the premium you paid for a Lenders Mortgage Insurance policy for your loan if that loan is repaid early, subject to the following:

1. The policy was issued on or after 1 October 2017.
2. The loan is repaid in full (e.g. not partially discharged or refinanced internally within ANZ or consolidated with other loans) within 24 months from the date the policy commenced.
3. The policy is fully terminated (e.g. does not continue in respect of other loans).
4. The policy is not subject to any claim at the time the loan is repaid in full.
5. Any security given in relation to the repaid loan does not continue to secure any other loan you have.
6. If ANZ gives you a refund, the refund amount will be:
   (a) 50% of the premium you paid, if the loan was fully repaid within 12 months from the date the policy commenced; or
   (b) 25% of the premium you paid, if the loan was fully repaid within 24 months from the date the policy commenced.

WHAT HAPPENS IF I CANNOT REPAY MY LOAN AND MY HOME IS SOLD?

If you cannot meet your loan repayments and no other resolution is found, your property may need to be sold to cover the outstanding loan amount. In this situation, sometimes the property is sold for less than the amount of the loan balance, leaving an amount still owing (this may be referred to as the 'shortfall debt'). If this happens, you as the borrower are obliged to repay that outstanding amount of the loan or shortfall debt. The LMI insurer will cover the loss for the lender in accordance with the LMI policy. Where there is a shortfall debt, the LMI insurer may then ask you, the borrower, (or any guarantor) to repay this directly to them, rather than to the lender.

FINANCIAL HARDSHIP

If you defaulted on your home loan, and your home is sold for an amount less than the loan balance outstanding – and your lender makes an LMI claim, it is important to note that you still owe the shortfall debt amount and you will need to repay that money to the insurer (rather than the lender).

All LMI insurers have hardship policies in place. It may be possible to arrange a deferral or payment plan to help you pay off the shortfall debt in instalments. LMI insurers recognise it may be difficult for you to pay off your shortfall debt if you are suffering financial hardship. For example, you have lost your job.

Therefore, if you are in financial hardship, you should contact ANZ (or their agent) as soon as possible.

EXAMPLE

- Andrew borrowed $400,000 to buy a home.
- His deposit was less than the lender's requirement of 20%, so he paid the cost of the LMI.
- Andrew later lost his job. Andrew experienced financial hardship and was unable to continue making the repayments.
- The lender repossessed the home and sold it for $300,000 which was less than the value of the outstanding loan amount. The shortfall debt was $90,000.
- Andrew remains obliged to pay this shortfall debt amount. The lender makes a claim on the LMI policy and the LMI insurer pays the lender $90,000.
- The LMI insurer then has the right to seek repayment of the $90,000 from Andrew.

WHERE CAN I FIND MORE INFORMATION ABOUT LMI?

Contact your lender or visit www.anz.com.au/lmi, or visit the financial information website of the Australian Securities and Investments Commission at www.moneysmart.gov.au

Frequently Asked Questions (FAQs) about LMI can also be found at www.understandinsurance.com.au/types-ofinsurance/lenders-mortgage-insurance

anz.com

Australia and New Zealand Banking Group Limited (ANZ) ABN 11 005 357 522. Australian Credit Licence Number 234527. Item No. 91602 012025 WZ151174