LENDERS MORTGAGE INSURANCE

Mortgage Insurance is necessary when purchasing a property if you have less than 20% deposit or insufficient equity in an existing property.

Lenders Mortgage Insurance (LMI) is one of the most popular ways to achieve the dream of home ownership sooner for borrowers that do not have a large deposit. Most lending institutions require borrowers to contribute a 20% deposit before they will agree to provide a loan. This is largely to protect against the risk associated with providing the borrower with the loan in the event that they default.

By using LMI, Lenders are able to pass on this risk to a mortgage insurer, which in turn enables them to offer the same loan amount but with less of a deposit. LMI should not be mistaken for Mortgage Protection Insurance, which covers your mortgage in the event of death, sickness, unemployment or disability. LMI protects lenders against a loss should a borrower default on their home loan. If the security property is required to be sold as a result of the default, the net proceeds of the sale may not always cover the full balance outstanding on the loan. Should this be the case, the Lender is entitled to make an insurance claim to the Mortgage Insurer for the reimbursement of any shortfall, calculated in accordance with the terms of the insurance policy. It is a once off premium and in a lot of cases can be capitalised with the loan.