The waiting game

may cost you more...

Some of our clients who didn't want to pay LMI in the last 12 months are NOW facing a much bigger challenge. The property they were saving for has gone up 3 times more than the LMI they avoided paying!

➔What is LMI?

Lenders' Mortgage Insurance (LMI) was introduced to offer higher Loan to Value Ratio (LVR) loans while reducing the risk to the lender. This insurance is paid by the borrower (you) typically as a one off payment to the lender - either at settlement or added (as a capitalised amount) to the loan amount.

Lenders will stipulate if they require you to take out LMI. This is most likely if you have a deposit of less than 20%. You should note that **LMI protects your lender** in the unfortunate event of you defaulting on your home loan – **NOT YOU!** When institutions agree to lend money to a customer there is a small risk that they won't get the money back if the customer is not able to meet the repayments in the future. Although they have your house as security, if property values decline, that security may not be enough to cover the outstanding loan when the lender comes to sell it. This insurance helps lenders broaden the net of people they are able to lend money to by taking some of the risk out of that loan. It means more people are likely to get approved for a loan and be able to purchase the home they want sooner.
Also note: *LMI should not be confused with mortgage protection insurance, which covers borrowers for the payment of their mortgage instalments in the event of unforeseen circumstances including unemployment, illness or death. This insurance is paid annually and can vary depending on the outstanding balance of the loan.*

➔Why do you need LMI?

When you don't have quite enough money for the deposit of your property purchase you will be asked to pay LMI. Some consumers don't like to do this as it scares them and is also seen as a waste of money. They would rather save the additional deposit and purchase a property later when the deposit has been saved.

The problem is however,While you are saving for a larger deposit, the housing market may move quicker than your savings. Thus the end result will be that the property you wanted 12 months ago is now $30-40,000 more expensive! And the LMI you avoided was only about $6-8,000.[1] **Example**: *The national median house price increased by +11.3% over the past year.*[2]

That means a property for $450,000 12 months ago would now be worth $499,500. An increase in capital growth of $49,500. The LMI you would have been asked to pay would have been between $5,500 - $8,000 depending on the lender & insurer.

So not only have you lost out on the capital growth from the last 12 months, you have also missed out on getting a proper foot into the property door. Not only is the property you want now more expensive, but you now need an even larger deposit than before. A dilemma!

With property on the move, we are seeing more and more clients miss out on opportunities every month because they don't want to pay LMI. Although we cannot predict the future and do not know the expected growth rates for the next few years, usually your property only has to increase by 1-2% pa in its first year to justify the expense of your LMI.

In an ideal world we would all like to avoid LMI, however sometimes it is a small price to pay to get what you want.

If you want a comparison on what you can purchase today (with and without LMI) and what you will be able to purchase in 12 months' time (projecting the expected property market growth) call us to have a chat and we will explore the options for you.

There are some special incentives for customers to invest in LMI at the moment (for example: if you have been with your employer for at least two years and some lenders do not charge LMI if your Loan to Value ratio is 85% - ie. you have a 15% deposit not a 20% deposit).
It is certainly worth a call.

The difference in waiting to save that additional deposit will more than likely be far greater than the LMI you will be asked to pay. Call us today to find out!

1 Based on a $450,000 property with a 10% deposit. (LMI can vary from lender to lender)
2 Source APM - Capital growth has been different in each capital city.