

## → Lender's mortgage insurance

The 'great Australian dream' is to own your own home, with 70%\* of the population doing just that.

Unfortunately saving for your dream property is becoming more and more difficult. With rising house prices, generating the traditional 20% deposit required to get a loan is harder than ever. Thankfully with the availability of lender's mortgage insurance (LMI), borrowers can get onto the property ladder much sooner with a smaller deposit.

## → What is LMI?

LMI was introduced to enable lenders to offer higher percentage loans while reducing their risk. 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 whether they require you to take out LMI. This is most likely if you have a deposit of less than 20%.

## → Who does LMI cover?

One of the most important things you need to understand is that LMI covers the lender NOT the individual.

LMI covers the lender in the unfortunate event a borrower is not able to maintain mortgage repayments and defaults on their loan. LMI provides assurance to the lender that the loan will be repaid to them.

This does not protect your assets. Though the lender is covered, you would still be at risk of losing your property.

## → How to protect yourself

There are many insurance products available to cover you should you be unable to make your loan repayments due to unexpected life events.

Protection products vary and can include cover for a number of events such as loss of job, injury, illness, disability and death. The cost of cover will depend on numerous factors including the insurance product you select, the insurer, the benefit amount, what is covered, your age and your health.

Choosing the right kind of cover can be daunting, however there are simplified loan protection products available that are easy to understand so you can be sure of what you're getting.

## → What if I can't afford to protect myself?

With all the fees and costs associated with buying property, additional premiums for loan protection could seem like an avoidable expense.

What you need to consider is whether you can afford not to have it. Do you have savings or other assets you could call on if you became sick and couldn't meet your repayments?

We happily (yet begrudgingly) insure our car, home and contents but what about your biggest asset of all...you? The most important thing you need to be aware of is your exposure to personal risks if you don't.

\*ABS Statistics, <http://tiny.cc/aa0jdw>

# so...who's protecting who?

*As a borrower, taking out a loan of any kind can be an overwhelming and complex process. This isn't helped by all the different financial product naming conventions and acronyms that you will undoubtedly encounter.*

*An area that often causes confusion is the difference between lender's mortgage insurance and mortgage protection insurance...*

