



## CASE STUDY

# Getting home sooner

## How LMI can make it happen

Andrea and Mark, in their early 30's with two young children, were determined to purchase their own home and stop their "money going down the drain by paying rent".

Since having Charlie and Anna it was harder to save but they had still managed to build a 5% deposit (with a little bit set aside for fees and incidentals). Their challenge was in finding a lender to approve the 95% loan-to-value ratio (LVR) loan they needed for their dream home.

And the longer they waited, the higher house prices were likely to rise: "We'd calculated we could afford about \$400,000 but every weekend looked the same: another auction, a higher sale price," said Mark.

From a combined income of \$140,000, rent was costing them \$600—every week. Believing that this money should have been going towards a mortgage, they decided to consult a lender about their options.

Pleasingly, Andrea and Mark learnt they could buy a home with their 5% deposit by using Lenders Mortgage Insurance (LMI) provided by Genworth Financial on a high LVR loan.

LMI offsets the risk a lender takes on a low deposit loan and lets them offer mortgages above 80% of the security property value.

Lenders usually pass the cost of LMI on to the borrower, but this amount can often be *capitalised* into a loan\*; adding only a small additional cost each month to mortgage repayments.

Andrea and Mark could readily meet their mortgage repayments, so LMI enabled them to buy and then start watching the value of their home grow—instead of standing on the sidelines.

They've been in their home for six months and couldn't be happier. "Nothing beats having your family under a roof that you own, but 12 months ago I couldn't have imagined everything turning out this well. **LMI made owning our home happen so much quicker,**" said Mark. See how overleaf...

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\* Not all lenders allow capitalisation of LMI. Please contact your lender to find out more.



## About LMI

- LMI protects the lender if a borrower is unable to meet their mortgage repayments and the property has to be sold for less than the amount owed to the lender
- Traditionally, lenders require borrowers to have at least a 20% deposit, however by using LMI, lenders are able to offer lower deposit home loans
- As LMI protects lenders from risk of mortgage default, it enables them to lend a higher level of the security value
- LMI is a one-off premium paid up-front but, in most cases, it can be capitalised into the cost of the loan
- Your lender will advise you if your loan requires LMI and will prepare all the necessary documentation. To qualify for LMI, your lender will check that you are able to meet regular mortgage repayments, and meet relevant credit policy. Your lender is your sole point of contact if you have any questions regarding the LMI cover provided in respect of your loan
- Genworth Financial is a leading provider of LMI in Australia and New Zealand.

## LMI: the benefits

- Enabled Andrea and Mark to own their own home years sooner than would have otherwise been possible
- Allowed Andrea and Mark to start benefiting from potential house price appreciation sooner
- By capitalising the cost of LMI into their loan, they didn't need to save more to pay an up-front premium
- Allowed Andrea and Mark to escape the 'rental trap' and start building equity sooner by owning their own home.

## How Andrea and Mark crunched the numbers

*LMI: for about the price per month of a family-night at the movies*

<i>Our combined income</i>	<i>\$140,000 p.a.</i>
<i>We've saved a 5% deposit*</i>	<i>\$20,000</i>
<i>We used LMI to get a loan for</i>	<i>\$380,000**</i>
<i>To buy our dream home for</i>	<i>\$400,000</i>
<i>For monthly repayments of</i>	<i>\$2,563</i>
<i>Including an LMI cost of just</i>	<i>\$81***</i>

\* excludes stamp duty and other costs of purchase \*\*30-year term, assuming a rate of 6.82% p.a. \*\*\* monthly, when capitalised

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