

FS 9 What is Lender's Mortgage Insurance and how can I reclaim it?

Use this fact sheet if:

- you have paid for lender's mortgage insurance (LMI) for your home loan
- you have repaid, refinanced or lawfully terminated your home loan early

In some circumstances, lenders require borrowers to pay for lender's mortgage insurance (**LMI**). In some circumstances (ie. when borrowers repay or refinance their loan early), borrowers are entitled to recover a part of the premium they have paid.

What is Lender's Mortgage Insurance?

LMI is insurance provided by insurance companies and protects a lender if the borrower fails to repay the home loan and the lender must sell the borrower's home at a loss.

LMI protects the lender not the borrower. If the borrower cannot make payments, LMI does not provide any cover for the borrower.

Although LMI protects the lender and not the borrower, it is the borrower who pays the LMI premium when they enter into a loan agreement with the lender.

When do lenders insist on Lender's Mortgage Insurance being paid?

It is up to lenders to determine their policies in relation to requiring LMI to be paid. Typically, lenders may require it where the borrower borrows more than 80% of the value of the property or where the lender considers the borrower high risk (eg. where the borrower has a default on the borrower's credit report or where the borrower can produce limited evidence to prove the borrower's income).

What should I do before I pay for Lender's Mortgage Insurance?

An important term in the LMI policy is that which details the circumstances in which part of the LMI premium can be refunded so read the policy carefully before you pay for LMI and take out the loan.

Warning: This fact sheet is for information only and should not be relied upon as legal advice. This information applies only in Victoria, Australia and was updated Oct, 2010.

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You should ask your lender for a copy of the LMI policy before you sign for the loan. Read the policy carefully and if there is anything you are not sure of seek advice. Also, make sure you keep a copy of the policy for your files.

When can I claim a refund of Lender's Mortgage Insurance?

LMI contracts typically allow for a partial refund of the premium if the home loan is repaid early. A partial repayment of the premium is often allowed if the home loan is repaid within 12 months or 24 months. The value of the refund can be high – often 50% or more of the premium.

You have the right to claim a partial refund if one is available under the policy – you have paid the premium, why should the lender or the insurer keep the partial refund?

How can I claim a refund of Lender's Mortgage Insurance?

The first step of reclaiming a part of your LMI premium is to contact your lender and ask them to request a part refund from the LMI insurer. Your lender should have no objections to doing this as it is the insurer, not the lender, who pays for the refund.

Unfortunately, there have been some circumstances where lenders have been unhelpful and have not claimed a refund of LMI for consumers. Your lender may try to get you to approach the LMI insurer directly – this is not the appropriate avenue as it is the lender and not the borrower who is insured.

All lenders for consumer (not business) loans must be a member of an external dispute resolution ('EDR') scheme.

You can complain to the EDR scheme of which your lender is a member.

External Dispute Resolution Schemes:

Financial Ombudsman Service:

Tel: 1300 78 08 08; www.fos.org.au

Credit Ombudsman Service Limited:

Tel: 1800 138 422; www.cosl.com.au

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