The THREE Golden Rules

To Getting The Lowest LMI Premium

HomeLoan experts

THE 3 GOLDEN RULES TO GETTING THE LOWEST LMI PREMIUM

1. Improve your credit score

Did you know that around half the people who apply for a home loan with LMI are declined? There isn't much point in finding the lowest premium if you get declined anyway!

Many of these people are responsible spenders, have secure employment and meet the bank's approval guidelines. So why do they get declined?

In most cases, it's because of their credit score.

The better your credit score, the more lenders we can apply with. The more lenders we can apply with, the more likely it is that we can get you a low LMI premium.

What is my credit score?

When you apply for a loan, the lender will use a computer system to score your application. If your score isn't high enough then your loan will be declined.

The system used to produce your credit score is specific to each lender. In other words, you could have a high score with one lender and fail the credit score of another lender. However, a few of our lenders do not use credit scoring, which can greatly increase your chance of approval!

What information is my credit score based on?

The bank takes <u>everything</u> into account when formulating your credit score. This includes your asset position, the length of time at your current address and even the sufficiency of your contact information. It is a statistical analysis of the risk of your entire application.

However, it is your credit history that plays a major role in the calculation of your credit score. What most people don't know is that having an active credit file with several applications in recent months, is almost as bad as having a default on your credit file! Do not put in multiple applications for your home loan or other credit at the same time!

What if I have a bank account with the lender I apply with?

If you have bank accounts, credit cards or personal loans with the lender you are applying with then they will know more about your situation than other lenders.

While this means that the bank will be more familiar with you, it can work against you if you have overdrawn your account, been late with payments or if your credit card balance is quite high. Do not expect your bank to approve your loan if you have had more than one over limit/overdrawn account in the last six months.

How can I improve my credit score?

Follow these simple steps to try and improve your credit score:

- ✓ **Save a larger deposit**: In particular make sure you meet the genuine savings criteria of your lender.
- ✓ **Don’t take out any finance:** Avoid applying for credit cards or personal loans for up to six months, before you make an application for a home loan. You should only apply for a home loan with one lender at a time.
- ✓ **Show stability:** Try to apply for a loan when you have a minimum of 6 months in your current job and place of residence. Note that some lenders have scoring that is lenient to people who have just changed jobs or addresses.
- ✓ **Prove a rental history:** Renters that can prove a perfect payment history have better scores than people who are living with their parents.
- ✓ **Manage your accounts:** Never overdraw your cheque account, allow a direct debit to get declined or go over the limit on your credit card. Being just a day late with a loan repayment will flag you as a risky borrower.

Getting approval

If you are looking to apply for a home loan, it is important that you find out how the banks will assess your individual application. This way you can amend your situation and maximise your chances of approval.

Too many people put in multiple loan applications without realising the impact that this will have on their credit score. The banks can see this activity on your credit file and to them it looks like you have been declined by every bank in town!

Our mortgage brokers are experts in credit scoring.

Please enquire online or call us on 1300 889 743 and we can help you to get approved for your mortgage!

If you would like an estimate on your credit score please visit our credit score calculator.

2. Examine the premium rate card

Knowing the Premium Rate Card of different lenders can reduce the Lenders Mortgage Insurance (LMI) premium that is payable.

Lenders break up their premium rates into different percentages based on the Loan to Value Ratio (LVR) and the size of your loan. These premium rates are put into a table and are known as an LMI Premium Rate Card.

Your LVR is the percentage of the purchase price or property value that you are borrowing. So if you were borrowing $900,000 on a $1,000,000 property, that would be expressed as 90% LVR.

Two quick tips to reduce your premium

You can make some significant savings on your LMI premium by simply changing your LVR or loan amount.

Most mortgage brokers and bank staff don't play around with your loan amount to try to get you the lowest premium! Many banks just setup your loan to be 90% or 95% LVR, even though you may be able to drop your loan to 88% or 94% to reduce your premium.

1. **Reduce your LVR:** If you are borrowing 95% + LMI then consider dropping your LVR by just a few percent. If you can borrow 94% + LMI, then your premium will often be much lower! In addition to this, many lenders don't allow LMI to be capitalised over

97% of the property value so you get the exact same loan amount if you were to borrow 94% or 95%!

2. **Reduce your loan amount:** LMI premiums jump up significantly the moment you borrow over $300,000, $500,000, $750,000 and $1,000,000. So if you are borrowing close to one of these thresholds, then try to reduce your loan and you'll save a small fortune!

Here are a couple of examples:

<u>Example #1</u>

Loan amount: $301,500

Property value: $335,000

LVR: 90%

Premium: $3850

However if you dropped the Loan Amount to $300k:

Premium: $2934, *that's a saving of almost $1,000!*

The reason behind this is that each loan amount falls into a different category. Simply reducing your loan amount to $300,000, means it is assessed at a lower premium rate. You will find that with most lenders the premiums jump up significantly at $300,001, $500,001, $750,001 and $1,000,001.

<u>Example #2</u>

Loan amount: $950,000

Property value: $1,000,000

LVR: 95%

Total premium: $36,284

Final loan amount: $970,000

Because the final loan amount is capped at 97% LVR, it cannot exceed $970,000.

However if you dropped the LVR to 93.6% ($936,000):

Total Premium: $33,999

Final Loan Amount: $969,999

Incredibly, the actual loan amounts are the same, *yet the premium is $2,285 less!*

Knowing the different rates can help reduce the amount you pay on premiums.

Getting access to the Premium Rate Cards

The banks do not publish their LMI rates to the general public. However, you can use our LMI calculator to compare the premiums of six different lenders or you can take a look at our example premium rate card.

Our mortgage brokers have access to the LMI premium rate cards for all major lenders. Please call us on 1300 889 743 or enquire online and they can assist you to reduce your premium.

3. Find out about specials and hidden catches

Specials:

Some lenders will significantly reduce their LMI premiums or even waive them for borrowers who meet specific criteria.

Certain professions are eligible for special discounts and may be exempt from some loan requirements.

Doctors, Accountants, Lawyers and Mining Engineers in particular are considered to be low risk borrowers. This is primarily because they have the lowest default rates out of all professions and they tend to buy several investment properties, as their career progresses.

However, some lenders will waive LMI for other low risk borrowers and first home buyers. You can view the current eligibility criteria for these reductions on our LMI discounts page.

Specials and discounts change on a regular basis and some remain unadvertised. As such, it is important to speak to a mortgage broker who is aware of the latest discounts.

To find out if you qualify for a discount, call us on 1300 889 743 and our expert mortgage brokers will assist you.

However, if you don't qualify for a special LMI discount, the banks will still waive this requirement if your parents are willing to guarantee your loan using their property as security.

Hidden catches:

Some lenders have higher premiums for particular borrowers or loan types:

Loan purpose

Investment loans, constructions loans and loans for self-employed people are all known to be a slightly higher risk. As a result some mortgage insurers load the LMI premium, whereas others don't.

Loan types

For example, long interest loan periods (over 5 years), construction loans, loans to refinance with another lender, people with borrowed deposits and borrowers who have no genuine savings, may incur premium loadings due to the higher risk associated with their loan.

If you are in one of the above situations then make sure you choose a lender that does not charge a higher premium!

Cross securitisation

Cross securitisation is where one loan is secured by multiple properties.

For example if you had three properties valued at $300,000 and you wanted to borrow 90% of the value of the properties you could either apply for one loan over all three properties (cross securitised) or three loans with one on each property (standalone applications).

For example, if you were to take out one loan of $810,000 lent against $900,000, then the total premium would be $14,807.

However, if you took out three separate loans of $270,000 for each property ($810,000 in total), the combined premiums amount to $8,637. This is a saving of $6,170!

This is because LMI is charged at a much lower rate for loans under $300,001 than for a loan over $750,000.

If you are looking for the lowest LMI premium available, please contact our mortgage brokers on 1300 889 742 or enquire online and they can assist you in finding a competitive lender that suits your needs.

DISCLAIMER

 You should talk to a qualified mortgage broker and get the right advice on ways to reduce your LMI premium. This guide should not be used, relied upon, or treated as a substitute for specific professional advice.

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