IDentity Property Buyers

NEWSLETTER #050

Invest In Mortgage Insurance???

Welcome back to the next instalment in the IDentity Property Buyers Newsletter series. Today's chat is a look into Lenders Mortgage Insurance (LMI) and how it can be considered an investment and not just a cost.

Firstly let's clarify exactly what mortgage insurance is… Mortgage insurance is actually an insurance policy that is taken out by the bank to insure them against you defaulting on your mortgage.

If you don't pay your loan and default on your property, the creditors will put your property up for sale. Then when the property is sold the first people to get their money is, as you guessed it, the bank. Now if the proceeds from the sale of this property does not cover your loan then mortgage insurance kicks in. The mortgage insurer will be on the hook to pay the shortfall which prevents the bank from losing money.

Banks Don't Lose

Now it seems absolutely crazy that you are paying for the banks insurance policy against you defaulting, but it is reality!

Not all bank loans for property purchases require LMI, with the typical Loan to Value ratio (LVR) being 80%. So in most circumstance if you are borrowing more than 80% you will be on the hook for mortgage insurance.

The amount you will need to pay for mortgage insurance will depend on a number of things, all of which affect the cost of the insurance policy. The largest factor influencing the cost will be your LVR, the less deposit you have and the greater the loan size means the larger the cost will be for LMI.

If you are buying a property for 600k then to avoid paying mortgage insurance you will need 20% deposit plus costs (~120k). Let's say you currently have 60k deposit then if you purchased now you would be required to pay approximately 20k in LMI.

So to avoid this 20k cost, how long would it take you to save another 60k? 1, 2 or more years?

Now if the property market rises by 10% per year and it takes you 2 years to save that 60k, then that 600k property now costs 726k, which actually means you need over 145k (20%) to avoid LMI.

Invest in Lenders Mortgage Insurance today!

In this example if you pay the 20k LMI and purchase that 600k property today then you will be far better off in two years time.

So if that property does rise by 10% per year then your 600k property becomes 726k after two years. That is over 100k worth of capital growth attributed to the fact you did the smart thing and paid 20k LMI.

So that is how you can invest in LMI and achieve more than 5 x your investment over the course of 2 years.

LMI - Insane ROI!

Let our professionals at IDentity Property Buyers help you avoid all those costly mistakes and provide you with a fantastic experience and an exceptional end result....

Make contact today and schedule in a **Free, No Obligation** chat with one of our Buyers Agents & Property Strategists.

Don't get left behind when the market is moving, take control with your very next steps in a professional way today!

MAKE CONTACT

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