



# What is LVR and Can You Avoid Paying Lenders' Mortgage Insurance (LMI)?

Buying a home or investment property can be daunting but it can also make you feel elated. Either way it all starts with saving for a deposit or accumulating equity in an existing property (the difference between your existing property's market value and the balance of your mortgage) to use for the purchase of your new property.

A great goal is to have a deposit or equity that will go towards a home deposit of 20%. While many of us may assume this is 20% of only the property purchase price, you will need to take into consideration property transaction costs such as stamp duty, conveyancing and inspections etc, and then *consolidating all these costs to make up your 20% deposit*.

Why 20% you may wonder? Lenders view purchasers who borrow 80% or less as a lower risk. While lenders can offer home loans with lower deposits, the bigger your deposit the lower your loan to value ratio (LVR).

## What is the significance of a lower LVR?

For loans with an LVR at or below 80%, lenders will not generally charge you lenders' mortgage insurance (LMI).

So what is LMI? LMI is an insurance policy that the lender takes out to cover their risk if you fail to repay your loan. Some lenders may not take third party insurance but rather take on the risk themselves and charge an alternate risk fee.

How much you borrow will determine whether and how much LMI you will pay.

## Let's break it down.

The LVR<sup>1</sup> (usually calculated as a percentage) is the property value in comparison to the loan amount.

LVR is calculated by dividing the loan amount by the property's value (as valued by the lender, not necessarily the price you paid) and multiplying it by 100.

## Or in a more simplistic view:

Loan Amount		Property Value		LVR
\$320,000	/	\$400,000 X 100	=	(80%)
\$600,000	/	\$750,000 X 100	=	(80%)
\$701,250	/	\$825,000 X 100	=	(85%*)

\*an LVR above 80% will most likely result in the payment of LMI.

In the example above, with a property valued at \$825,000 and a loan amount of \$701,250, you could expect to pay just over \$9,000 LMI.

You may now be thinking that you will be required to save a little extra to cover the cost of the LMI, however lenders will allow you to borrow the cost of the insurance.

## So how can you top up your home loan deposit savings sooner?

Contact us for our 12 Step Guide to Speed Up Your Home Loan Deposit Savings for a few ideas on making small changes to your 'everyday' spending that could add up in the long term.

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Discuss your unique situation with your finance specialist and have your options presented to you clearly.

## Did you know some lenders apply a lower interest rate to borrowers with a lower LVR?

The bigger your deposit, the lower the LVR. The lower the LVR, the lower your risk to the lender, hence a more competitive interest rate. Plus, since you are borrowing a lower loan amount, you will pay less interest over the term of the loan.

### For example, if Lucy borrows 70% of the property value and Bobby borrows 85% of the property value:

- both properties are valued the same at \$650,000
- both secure the same interest rate of say 2% pa (principal and interest with a 30 year loan term)

by the end of the term, Bobby would have paid **an additional \$32,237 in interest** compared to Lucy.

There are many home loan calculators that can provide clarity on the amount of interest you'll pay over the term of your loan<sup>2</sup>.

For your peace of mind, those who have never ventured into the property market might opt to seek advice from a finance specialist. With experience in mortgage applications, LVR and LMI calculations, we are here to step you through the process and help you through your home buying journey.

1 [https://www.savings.com.au/home-loans/how-can-loan-to-value-ratio-lvr-affect-your-interest-rate?gclid=EAlalQobChMlkuivj\\_Dc8wIViA4rCh1BgQmMEAAyAAEgljZvD\\_BwE#lvr](https://www.savings.com.au/home-loans/how-can-loan-to-value-ratio-lvr-affect-your-interest-rate?gclid=EAlalQobChMlkuivj_Dc8wIViA4rCh1BgQmMEAAyAAEgljZvD_BwE#lvr)

2 <https://www.canstar.com.au/home-loans/calculate-loan-interest/>

Contact us for our "12 Step Guide to Speed Up Your Home Loan Deposit Savings"

