

Home buyers stung

Insurance costs soar

PREMIUMS have gone through the roof for the supposed "insurance" that a quarter of all home buyers have to pay when taking out a loan.

Lenders Mortgage Insurance for a borrower with a typical 10 per cent deposit on a \$500,000 property has risen from less than \$6000 last year to nearly \$9000, a surge of close to 50 per cent, according to brokers Home Loan Experts.

"It is becoming more expensive," Home Loan Experts senior broker Hank Hong said.

LMI has been used in more than two million loans, but is poorly understood and is rarely discussed in detail. It is charged whenever a borrower has a deposit of less than 20 per cent.

Many of those who pay it don't even realise it protects the bank, not them.

In August 2011, then treasurer Wayne Swan announced the introduction of a one-page fact sheet on LMI. Nearly two years on it still isn't in place. It is "close" to being in place, according to the office of Assistant Treasurer David Bradbury.

Incredibly, when it is, it won't even nominate the cost. And it is unlikely to point out that LMI is neither portable nor refundable.

That means any household looking to refinance with another lender faces paying thousands of dollars in LMI for a second time, unless they have at least 20 per cent equity in their home.

John Rolfe

cost of living editor

Mortgage brokers and consumer groups say this is undermining the Government's efforts to increase competition in the home-loan market because having to pay LMI again makes switching lenders financially unviable.

"It should be made portable," Finance Brokers Association of Australia's president Peter White said. And greater disclosure was required, he added.

Choice spokesman Tom Godfrey said: "Lack of portability around Lenders Mortgage Insurance significantly affects consumers' ability to switch banks."

"Choice would like to see the product reviewed, and maybe an option that should be considered is for lenders to refund consumers to make it easier for them to switch."

Home Loan Experts' LMI premium increase calculations were based on comparing 2012 and 2013 rates for Genworth, one of the two major providers of Lenders Mortgage Insurance in Australia. When contacted for comment, Genworth said all executives authorised to speak to the media were on holidays.

Premiums levied by the other big provider, QBE, have also increased considerably. A mortgage broker who asked not to be named for fear of retribution said there had been a 17 per cent increase since 2010.