

For immediate release  
Friday, 26 June 2015

## Costly insurance catching homebuyers unaware

New research shows that one in three South Australian homebuyers surveyed don't understand an insurance product that adds thousands of dollars to their home loan, but provides them with no protection.

Lenders Mortgage Insurance (LMI) is a type of insurance many homebuyers are required to take-out if they borrow more than 80% of the property's value. However, the insurance provides no protection for homebuyers, but instead protects the lender against default.

A recent survey of more than 2000 homebuyers by South Australian lender, HomeStart Finance, showed that more than 35% of respondents thought that LMI provided protection for them if they couldn't repay the loan.

HomeStart Finance's Chief Executive Officer John Oliver said it was alarming that such a high percentage of homebuyers would fork out for insurance that could cost them up to \$15,000, but provided absolutely no protection for them.

"LMI adds a significant amount of money to a housing purchase and our research confirms that many homebuyers are willing to pay for it, without understanding who it actually protects," he said.

"Depending on the size of a homebuyer's deposit and how much they need to borrow, LMI can range from \$5000-\$15,000. It is a lot of money for something that helps a lender recover their losses should a borrower default on the loan.

"When every dollar counts, particularly for first homebuyers who are scrimping to save for a deposit, LMI can be a huge burden that many feel they have no choice but to accept.

"Our research continually demonstrates that upfront costs are one of the biggest barriers to home ownership for young people. The last thing they need is to be hit with a costly insurance bill on top of all the other costs they need to meet.

"The homebuyer is essentially paying for an insurance that protects the lender."

Mr Oliver said there was a number of ways homebuyers could avoid LMI and keep thousands of dollars in their own pocket.

"The most obvious way to avoid paying LMI is to have a deposit of more than 20% of the property's value," he said.

*HomeStart makes home ownership a reality for more South Australians in more ways. We are a statutory authority that reports to the Minister for Housing and Urban Development. We were created in 1989 and since then have helped over 64,500 households into home ownership.*

## Media release

---



“But with a property purchase potentially costing hundreds of thousands of dollars, of that can be a significant amount of money to save upfront. An alternative option is to find a lender who doesn’t charge LMI.

“HomeStart is one such lender, and instead has a Loan Provision Charge, which costs a lot less for most customers.

*HomeStart makes home ownership a reality for more South Australians in more ways. We are a statutory authority that reports to the Minister for Housing and Urban Development. We were created in 1989 and since then have helped over 64,500 households into home ownership.*