



GUIDE TO INSURANCE FOR A MORTGAGE

It is important for borrowers to be aware there are two types of mortgage insurance – the one you pay to protect your lender, the other you pay to protect you, your family and your home.

Understanding the two types will ensure you are not caught thinking you are protected when you are not.

Lenders Mortgage Insurance (LMI)

Lenders usually require the borrower to take out this type of insurance if the borrower they cannot provide a 20% deposit on the property they seek to purchase or if they are applying for a nonconforming loan. It protects them if the borrower defaults on their loan.

The borrower has to purchase the insurance as a once off premium. The cost is dependent on the amount of the loan, value of the property, stamp duty, and the type of loan. The lender will normally pass this cost directly to the borrower.

If it comes to the point when the property has to be sold due to the borrower defaulting, and the proceeds from the sale do not pay off the loan in full, LMI will cover the lender for the shortfall.

However, the insurance company may seek to recover the shortfall from the borrower.

Personal Insurance

Taking out a mortgage and buying a home is often the single biggest financial outlay of your life, therefore it is advisable to consider personal insurance to assist you make your repayments in the event of illness, accident or injury.

There is no single insurance product to protect your home if you cannot make your mortgage

repayments, however, there are a number of personal insurance products that would assist i.e. Life Insurance, Income Protection Insurance, Trauma or Crisis Insurance and Total and Permanent Disability Insurance.

The choice is yours as to whether you take out this type of insurance, but it would be particularly wise especially if you are single, a single income family or self employed.

A number of organisations offer personal insurance, your lender may offer this product or your mortgage provider may be able to recommend a company.

Home Insurance

A borrower is obliged to insure their home to its full value for the duration of the loan and not to do anything to void the policy.

For More Information contact us at:

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