Australian Banking Association

01 October 2019

Mr Andrew Gaczol
Acting Committee Secretary
Senate Economics Legislation Committee
Parliament House
CANBERRA ACT 2600

First Home Loan Deposit Scheme

Australian Banking Association (ABA) response to a question on notice arising from the appearance before the Senate Economics Legislation Committee regarding the inquiry into National Housing Finance and Investment Corporation Amendment Bill 2019 - Friday 27th September 2019.

Dear Mr. Gaczol,

Thank you for the opportunity to appear before the Committee as part of the inquiry into the National Housing Finance and Investment Corporation Amendment Bill 2019.

Lenders mortgage insurance (**LMI**) plays an important role in the Australian housing market. LMI allows a lender to provide home loans to borrowers who are creditworthy and have the capacity to make mortgage repayments, but do not have the required deposit.

Typically (but not always), the cost of the LMI premium is passed on by the lender to the borrower as a fee, like other fees (e.g. valuations) incurred by the lender during the mortgage origination process. The borrower generally has the choice to capitalise the cost of the LMI premium into the loan amount. This means the borrower does not need to pay this cost upfront but can spread the cost over the life of the loan.

LMI will last for the duration of the loan. The Mortgage & Finance Association of Australia (MFAA) estimates that the average life of a home loan in Australia is four years[1]. At that point, where a borrower is refinancing, if that borrower is in the financial situation where LMI is no longer required (i.e. the LVR for the new loan is lower such that a lender does not require LMI) then the LMI policy will be extinguished when the original loan is refinanced.

Yours sincerely,

Aidan O'Shaughnessy.

[redacted]

Executive Director – Policy
Australian Banking Association

[1] The value of Mortgage Broking, Deloitte Access Economics, July 2018, Page 12,
https://www.mfaa.com.au/sites/default/files/users/user133/_Value_of_mortgage_broking_Web_version.pdf