



# ING removes LMI for high-LVR prime borrowers

**I**NG Bank has introduced a reduced equity fee (REF) that, for the most part, undercuts lender mortgage insurance (LMI) prices for prime high-LVR residential borrowers with strong credit and savings histories.

The bank's move could potentially save thousands of dollars for its prime customers, which it estimates currently account for 50% of its business, and will heighten competition in a LMI space that may also face pressure from new entrant Mortgage Guaranty Insurance Corporation (MGIC).

"Reduced equity fee is quite unique in the prime space," Brett Morgan, executive director of retail mortgages at ING Direct, said of the REF. "I think we're pretty much the first to go with something like this."

Unlike LMI, which is usually applied to borrowings exceeding 80% LVR, the REF would only apply for LVRs above 85%. No REF would apply for loans with LVRs lower than this ratio.

Moreover, Morgan said that when the REF is applied it will generally be cheaper than the equivalent LMI price. As an example, he said for a \$500,000 principal & interest (P&I) loan at 90% LVR, the saving would be around \$1,700.

He said prime borrowers with stable employment (more than two years with the same employer) and zero credit defaults were the prime candidates for the REF, although only borrowers looking to purchase were eligible (refinancing deals are excluded). No refunds are available in the first 24 months, he added.

The REF can also be capitalised to the loan. Morgan of ING Bank said there

was little extra infrastructure required to administer the REF, as the bank, like most others, already undertook a rigorous credit appraisal of its borrowers. Combined with this was excess capital

that was made available by the bank's parent, meaning the additional risk was something it could absorb.

ING Direct's move comes as existing mortgage insurers Genworth and PMI, facing higher claims from rising mortgage delinquencies, tighten lending restrictions, Peter James, executive director at Mortgage Ezy, said.

"Today, market conditions have changed and we have all noticed the criteria and guidelines for mortgage insurance have become tougher," James, the head of the Gold Coast-based non-bank lender, said.

Mortgage Ezy is using the ING Direct REF offering on a range of its products and has said another benefit of the REF is that it was able to be applied uniformly across the country. "Gone are the different requirements and loan limits on a state-by-state basis," the company said in a statement. "Borrowers in Perth, for example, are afforded the same benefits as those in Sydney, with loan amounts available to \$600,000 at 100%."

Mortgage insurers are facing higher claims from borrowers often unable to repay loans taken out during the property boom of 2003. PMI Australia recorded a doubling in loans in default from the first quarter of 2006, rising from 1,520 to 3,063 in the same period this year. Its default rate was 0.29%. Genworth also reported higher default numbers.



Peter James



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Peter Hall, director and country executive, Genworth Financial Australia & New Zealand, said ING's move was not a threat to its business, which provides insurance to around 250 lenders. He also said he did not believe many lenders could follow ING's lead: "Unless you're a company like ING with a long, strong balance sheet then you can't replicate what they're doing." Moreover, Hall said that ING was catering to a very small part of the entire mortgage portfolio.

The recent entry of US mortgage insurance giant MGIC into the local market does suggest that opportunities for new, and potentially cheaper, LMI products exist locally. "We've had a lot of people approaching us and talking to us, and making us aware of things that they're not necessarily happy with at the moment and maybe where we can close that gap," Martin Fletcher, chief operating officer at MGIC Australia, said

in an interview for this month's Five Minutes With section (see p56).

He said many lenders view LMI as "an obstacle, or as a delay in the process", rather than as something positive and helpful. MGIC made it clear this was a view they wanted to eradicate.

James said if more lenders established how much they have paid in LMI, and compared this with the amount of claims paid out, they might also be keen to examine new ways of dealing with LMI. He added that, in relation to MGIC, "many non-banks are eagerly awaiting their writing of policies".

Although James said the REF was not the death knell for mortgage insurers and that LMI would always have a place locally, he also said that he believed ING's move highlighted a gap in the insurance market.

ING's move is not necessarily unique, though, as other lenders including St. George Bank and wholesale lender Möbius already provide an option of paying for LMI via a higher interest rate. St. George, which utilises its own 'captive mortgage insurer, has also allowed borrowers to pay a 'risk' fee for around five years now, according to the bank's

chief manager, specialised mortgage solutions, Bill McCabe.

McCabe said these options apply for certain products, including no-deposit loans, and for borrowers with "clean" credit histories who make their repayments on time and who can afford the loan they are applying for. "All of the products are aimed at helping people bring their buying decision forward, so that they're not locked out of the market," he said, adding that the extra payments for LMI are likely to be offset by rising property prices.

Moreover, in states where stamp duties are high for first homebuyers, capitalising LMI can be a big help for people who cannot save for these types of upfront fees.

Jumpstart Home Loans, a new mortgage company owned by wholesale lender Resimac, has taken a different tack in addressing the financial burden of LMI on prime borrowers by offering to pay it for them. Gerry O'Donnell, managing director at Jumpstart, said their no LMI product was "targeted at borrowers who have limited access to cover the high upfront costs of a traditional mortgage".

"Given the state of housing affordability and the focus on the first homeowner, we see a trend towards product innovation at both the mortgage and LMI levels," he said.

"We believe there'll be further change across product offerings that offer flexibility on upfront costs that will widen the reach of home loans to first-time borrowers," he continued.

Jumpstart's product comes with a 'deferred establishment fee', which begins at 2% of the loan amount for the first two years and drops to 0% after five years. "[The DEF] covers the costs associated with sourcing and managing a loan when it doesn't remain on the book for sufficient time to repay those costs," O'Donnell said.

"The DEF defers costs for those borrowers who don't have the available funds at loan origination to cover the necessary costs."

Pepper Homeloans CEO John Empey said that although he had noticed more lenders introducing 'risk' fees similar to the REF, "LMI providers are an important part of the mortgage industry and have a vital place in the facilitation of prime mortgages".

Empey added that, with MGIC's entry, he would expect the LMI market to become more competitive. "When a new player enters the market it's likely that they'll drive innovation, change and often sharper pricing."

As with other non-conforming lenders, Pepper Homeloans has experience with managing credit risk as it generally deals with borrowers who would not qualify for LMI.

"Pepper has a completion fee which includes a risk fee," he said. "The completion fee is applied at settlement and takes into consideration LVR. There are two bands, up to 80% at \$950 and \$1,950 for mortgages to 90%."

Empey added that Pepper's fees are usually low when compared to LMI. "For example, the LMI fee on an 80% low-doc product is over \$10,000 for a \$1m loan," he said. "In comparison, Pepper's completion fee is \$950 for our prime and non-conforming low-doc mortgage products."

He also said that for a 90% LVR Xpress mortgage, Pepper charges \$1,950 regardless of loan amount. Break costs of 2-3% apply if the borrower pays out their loan within 30 months to three years, depending on the product. MPA

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Loan type	LMI cost	REF cost	Saving
\$500,000 principal & interest loan at 90% LVR	\$7,466	\$5,700	\$1,766
\$300,000 principal & interest loan at 90% LVR	\$3,443	\$2,640	\$803

Source: ING Direct. Note that REF is only for select prime customers, and other conditions apply



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