

Mortgage Insurance, Good, Bad, and Ugly

What is Mortgage Insurance?

If you are an existing homeowner paying down a mortgage you probably already have some type of mortgage insurance coverage. If you are just starting out and are in the process of purchasing your first home, then you will likely be requiring mortgage protection in the very near future.

Mortgage insurance is a life insurance policy offered by banks and other lending institutions. It is designed to pay off the the balance of a mortgage should the mortgage holder pass away before the mortgage has been paid out.

Without exception the beneficiary of the policy will always be the bank or lending institution. More than **90%** of all Canadian home owners purchase mortgage insurance from their lender at the time the mortgage documents are signed. If you happen to be one of those people, then you will have paid on average 40% more for an insurance policy that benefits only the lender instead of you and your family.

The table below shows the cost of typical mortgage insurance offered by one of Canada's top 5 banks as compared to our 10 Year Term insurance. The rates shown are standard rates for a non smoking male on a \$250,000 mortgage. Preferred rates will be even lower. Contact us for a free quote today.

AGE	Reg. Mortgage Ins.	10 Year Term	Cost Savings
35	\$32.50 per/month	\$17.91 per/month	you save 55%
40	\$50.00 per/month	\$22.57 per/month	you save 45%
45	\$72.50 per/month	\$32.70 per/month	you save 43%

What are the Benefits?

Standard Mortgage Insurance

If a person owes \$250,000 on a mortgage and dies in a car accident tomorrow, the insurance company would pay back to the lender the \$250,000 that was left owing on the mortgage, or would they?

What 90% of Canadians don't realize is that the underwriting on a typical mortgage insurance claim is done after the fact. In other words, the insurance company will look into the medical history of the deceased to see if there could be any reasons for denying the claim.

If the autopsy revealed that the car accident was caused by an underlying medical condition then there is the possibility of the claim being denied. The surviving spouse who happens to be a stay at home mom and raising 3 kids would then have to find a way to continue paying the mortgage or risk losing the family home. If you don't think it could ever happen then have a read through the following stories:

CBC Marketplace: "In Denial"

Toronto Star: "The Feldman Story"

Term Life Insurance

The difference with Term Insurance is that the underwriting is done beforehand, therefore the insurance claim cannot be denied later on. If the insured party passes away, then the \$250,000 is paid out directly to the beneficiary and not to the lender.

Assuming that the surviving spouse is the beneficiary, then he or she now has the choice of either paying out the mortgage or using the funds in a manner of his or her choosing. Maybe the spouse earns a good income and is content to continue paying down the mortgage every month.

The \$250,000 could then be used to renovate the family home or to fund a new business venture. Maybe a college fund for the kids or invested in a retirement plan for the future. The proceeds of the term policy and the disbursement of the funds are always 100% controlled by the beneficiary.

What is the Coverage?

On a conventional mortgage insurance policy the amount of coverage is based solely on the outstanding mortgage balance. If the original mortgage loan was for \$250,000, but over years of repayments the balance is reduced to \$170,000, then the amount of coverage also decreases to \$170,000. The proceeds of the policy are payable to the lender and not to your beneficiary.

Term insurance on the other hand provides the same level of coverage for the entire length of the term and at about 40% of the cost. If someone started out with \$250,000 in coverage but over time the mortgage balance diminished to \$170,000, the amount of coverage would still remain at \$250,000.

Control of the Policy

A standard mortgage insurance policy is owned by the lending institution that issued it. Not only do they fully own and control the policy, they are also the sole beneficiary of the policy. If one were to move a mortgage to another financial institution, the existing mortgage insurance would cease.

In order to remain insured the borrower would need to reapply for coverage but at a potentially higher premium. As a person ages the cost of insurance increases, and if a person happened to be suffering poor health at that time, they could be denied coverage altogether leaving them with no protection at all.

If one were to sell a home or have a property foreclosed on by the bank the mortgage insurance would cease. Any changes to a mortgage document such as refinancing or a change of address, can lead to the collapse of a mortgage insurance agreement held by the lender. Does that give you peace of mind?

Term life insurance gives full control of the policy to the policy holder. It makes no difference as to which financial institution holds the mortgage, and it makes no difference whether a mortgage is moved from one institution to another.

Term insurance always stays with the policy holder and not with the lender so coverage never ceases. The owner of the policy has the freedom to make certain changes along the way. These changes may include the naming of a new beneficiary, renewing for another term, or converting to a more permanent type of insurance without having to go through a medical examination or answer any health questions.

What is the Downside?

The worst case scenario for Term Insurance is that for certain health reasons the applicant might not qualify. Well isn't that actually better to know beforehand than to have spent thousands of dollars in unnecessary insurance premiums for coverage that would ultimately get denied? Learn to protect your family, your home, your business, and Not your lender ! Contact [Savii Financial Concepts](#) today and let us take care of all your mortgage insurance needs.

Important notice: Our mortgage insurance plan does not replace CMHC mortgage loan insurance, which is the ***** insurance you are required to buy if the down payment on your home is less than 20%.