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"Over 35 Years Experience"

The Perils of Bank Mortgage Insurance

So, you're buying your first home, upgrading to a new house, or refinancing with a different mortgage lender. Out comes the paperwork, and they show you the life insurance (and maybe a disability or critical illness policy) as part of the monthly payments. It seems to be automatically included in the price of your mortgage payments, and in order to NOT be insured you have to sign to decline your coverage. Is this type of insurance best for you? When evaluating all your insurance options, does a mortgage or creditor insurance plan offer you real value? The simple answer is NO! There are many reasons why this type of insurance is one of the worst types of life insurance protection you can buy – and is just a huge profit maker for the banks (or mortgage lenders).

You pay the premiums but the bank is the one protected, NOT YOU!
This type of policy does offer some life insurance and maybe health insurance protection, but who is it protecting? If you think you are the one being protected you would be wrong. The bank has lent you money to finance the purchase of your home. If you die, get injured or sick and can't make payments, the bank is at risk of having a loan in default. The mortgage insurance policy is designed to protect them if you die. It is the bank's risk, yet they are convincing Edmonton clients to pay the premiums for this protection. If you died, the mortgage might be paid off (might – read on as the bank has a possible escape clause to not pay benefits). Then the bank is free and clear of the creditor, but your beneficiaries have no cash in hand. With property taxes due, heat, water, electricity, food, etc. all costing a lot of money to run the home, how does a piece of property help with cash-flow needs today? Your family might have to sell the home to meet lifestyle needs. Not what you are probably planning on.

Rising premiums and no portability/convertibility
If you are young you might find the monthly or bi-weekly premium for your mortgage insurance to seem rather low. This is not the case if you are into your late 40s or 50s. Mortgage insurance premiums become very steep and are often 2 or 3 times more costly than personal insurance. The banks have priced their product well for young homebuyers, but the chances of young people dying are much lower than if you are a little older. Combine this with rising premiums. Most banks structure their insurance to rise every 5 years as you age, so the low price you are paying today might increase sharply as you age.

What is portability or convertibility? Portability is having a policy that can travel with you, from home to home and bank to bank. Mortgage insurance is only available on the home you are buying/refinancing now and only with the bank that is doing the lending. If you move homes or move banks, the mortgage insurance does not go with you. You would have to reapply with another bank at higher rates since you are now older. What if your health has changed for the worse and you can't qualify for life insurance any longer? By moving banks or homes you would lose your insurance coverage altogether! Convertibility means that your Term life insurance policy (mortgage insurance is Group Term Insurance which is not convertible) can be switched into a Permanent life insurance plan later on if you so choose. This gives you planning options that a mortgage insurance product never will.

Declining coverage – fixed/increasing premiums

Think about it, every time you make a mortgage payment you owe less on your principle. This is great, as you are getting out of debt to the bank. The bad news is your insurance coverage through your mortgage insurance policy has also just gone down. The smaller your mortgage balance, the less life insurance you have. But, your premiums have not gone down. They have remained constant during those years, and in some cases have gone up as you have gotten older. This is truly unfair! Why pay a premium for a plan that gives you less and less coverage? Shouldn't the premium also go down?

For example, if you owed $400,000 when you first bought the house and your insurance premium was $150 per month that seems like a decent price for coverage on a couple in their early 30s. Now fast forward 20 years. Assume you have stayed with the same bank all those years and your insurance premiums have remained the same – you are still paying $150 per month for maybe only $40,000 of outstanding mortgage debt. Today, the cost for $50,000 for a couple aged 55 (non-smokers) is as low as $40 per month. You are paying almost triple the going rate for life insurance!

Underwriting at time of death – possible decline of your claim

Another major flaw in mortgage insurance is that you are only underwritten at time of claim. This means you are qualified for life insurance only when you die. You original application had 3 or 4 broad questions to knock out serious health conditions that are not insurable. Often these questions are not properly asked by the lender, as they are not licensed insurance professionals held to a higher standard. When you die, the insurance company offering the group mortgage insurance would look back to see if you had any pre-existing health conditions. If you had something serious, like diabetes, heart disease, cystic fibrosis, etc, they could deny the claim and return premiums. Even less serious things, like elevated cholesterol and high blood pressure could cause a denied claim if you died because of complications from these conditions. So, you think you are fully insured with mortgage insurance, but the truth is you are not – only when you die is your policy validated or denied.

Your best alternative, personal life insurance

When considering where to buy your insurance in Edmonton you should speak to a licensed and professional insurance advisor. We can evaluate your debt risks, and all other personal risks you might have. We could design you a short term life insurance plan, with fixed premiums for a 10, 20 or 30 year term. Or you could look at a permanent cash value policy that will act as a savings/investment product while providing you life insurance protection. You should consider all you options, and get a policy that pays your family, not the bank, when you die! Get a plan that has level coverage for a level cost. Have a plan that is fully underwritten at time of application, so you know you are properly protected.

To review your current mortgage insurance policy, or review any insurance planning, please contact A.M.H. Financial Services at (780) 425-4058.