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Home loans till death do us part

Mortgage life insurance can help in case of untimely death

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Just the thought of it may send shivers up your spine: What if your mortgage outlives you?

Few want to confront such a daunting prospect when signing a new housing loan, but it can happen. If you want to make sure your family isn't saddled with burdensome mortgage payments in the event of an untimely death, one option would be taking out mortgage life insurance. It's something most bank representatives will offer at the time of a mortgage signing.

While such insurance could provide peace of mind, financial planners urge caution before agreeing to the monthly premiums. Many customers could be better served with personally owned term insurance, which can provide more flexibility and, in some cases, cost less.

"This is not an area where you want to be an impulse buyer, and the results of making the wrong decision can be catastrophic," says Mark Halpern, a certified financial planner and founder of illnessPROTECTION. com Inc. in Toronto. "People need to sit down with a competent professional to see how this fits in with overall financial planning."

Mortgage life insurance sold by creditors is not to be confused with mortgage loan insurance, which is typically required by lenders when homebuyers make a down payment of less than 20% of the purchase price.

One of the drawbacks of mortgage life insurance is it's not portable should you sell and purchase another home. You'll have to reapply, and could be hit with higher premiums if your health has deteriorated or if you're deemed a higher risk-- say, if you started smoking.

Mortgage life insurance also maintains the same premiums even as you pay off your home. In effect, the more the outstanding balance drops, the less your family can collect should you pass away, and the more expensive each dollar of coverage will be.

Mr. Halpern contends that, when examining comparable products, term life insurance is often priced the same or better than mortgage insurance. To get an idea of what term life insurance will cost, check outwww.getterm.cc,a Web site run by Compulife Software Inc. that life insurance brokers often use. Suppose you're 40 years old, in excellent health, a non-smoker and taking out a $200,000 mortgage. RBC's Insurance HomeProtector plan would cost $40 a month for single coverage. By comparison, term life insurance premiums, according to that Web site, range from $21.51 to $40.80 based on a 10-year term, and $31.14 to $67.27 for a 20-year term.

It's worth noting that banks now often throw in disability and critical illness insurance as part of mortgage

life insurance packages, which could make them worth considering based on the extent of your coverage needs.

MaryAnn Kokan-Nyhof, a certified financial planner in Winnipeg, says she almost always recommends individual life insurance over mortgage insurance. "One of the main reasons is individual life insurance belongs to you. You own it. The beneficiary is whoever you name it to be. It isn't the bank first in line for the money."

Mortgage life insurance can be bought and cancelled at any time while carrying the mortgage loan, Mr. Halpern notes. But if you do decide to switch to term insurance, make sure you don't cancel an existing policy before being approved. You could be in for a nasty surprise if a bank turns you down for a new policy.

"Do the application, do the medicals, pay for the first premium, and then go ahead and leave the mortgage insurance," Mr. Halpern advises.

Mortgage life insurance also has been criticized for using post-claim underwriting. That means a detailed analysis of whether a person can collect is done only after a claim is filed.

The banks may ask a short list of 10 or fewer medical questions when you're signing up for the insurance, but they won't thoroughly delve into your health records until after a claim is made, notes Valerie Chatain White, a certified financial planner in Winnipeg. "During post-claim underwriting they will look at everything and question it to death."

A routine test at the doctor conducted years before you took out the insurance could be used as justification by an insurer to have your claim denied, if it wasn't mentioned in your initial application and could be used as evidence of a future illness.

But Matthew Cram, a spokesman for TD Bank in Toronto, says the "vast majority" of mortgage life insurance claims get paid. He advises consumers to carefully read through the questions on the application. "Then, as long as they answer appropriately, they should feel confident that they are protected."

Mr. Cram notes that mortgage life insurance is a product that is easily accessible at bank branches everywhere. "Many Canadians find it difficult gaining access to an insurance broker whose main priority is to focus on higher amount policies and sophisticated solutions for high net-worth individuals."

He says while term insurance may make more sense for some people, for others, the two products can work together. For instance, if you're starting a family, you might want extra insurance to cover a mortgage liability for a particular time period, such as when your children are still living at home.