

Mortgage insurance may not be best choice

RITA TRICHUR
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Canadians looking to wrap up new-home purchases might find that life insurance is a more flexible and less pricey alternative to mortgage insurance obtained through a bank, say personal finance experts.

While most agree it makes sense to cover large debts with insurance, some argue when it comes to mortgages most consumers treat it as an afterthought and don't realize that buying through a bank can be a "costly mistake."

"It is important that people know that mortgage insurance is just another piece of a comprehensive financial plan," said Mark Halpern, a certified financial planner and founder of insurance website livesprotection.com.

"When you are not dealing with a professional, unfortunately you can have surprises and those surprises can come up at the worst time."

Part of the problem, he said, is that most consumers take out mortgage insurance when they close their financing deals with the bank without doing any price shopping ahead of time.

"And the reason is, because they (the banks) ask the questions at the time of the purchase: 'Would you like to have your house paid off if you die? Would like to have your house paid off if you get sick?'" Halpern said. "And who is not going to answer 'yes' to that?"

That emotional response, coupled with a lack of knowledge about alternatives, means that some consumers could be short-changing themselves in the long run.



Bill Carrigan
will return

With mortgage insurance obtained from a bank, coverage decreases with every mortgage payment but the premiums show no corresponding decline, Halpern said.

"The amount of coverage of their mortgage protection decreases as the mortgage is reduced, (while) the premiums stay the same," he said.

"That means their costs (per \$1,000 of coverage) actually goes up as they bring down their mortgage debt, whereas the amount of protection (with life insurance) remains fixed throughout the term."

Additionally, while mortgage insurance pays off the loan's outstanding balance, only the bank gets paid. In contrast, life insurance will relieve that debt, while often leaving something over for loved ones.

"Owning your own life insurance, you have options," Halpern said, noting the leftover money could be used to pay for items such as a child's education, taxes and other expenses.

It's also "portable," meaning that consumers don't need to re-qualify for coverage during the term if they buy a new home or switch mortgage providers.

By contrast, those who purchase mortgage insurance through a bank would likely need to re-qualify with the new financial institution. "Potentially, when they do this, they could be older, they could be unhealthy and rates could be higher. Which means they may not even qualify."

Homeowners who are healthy and have a good family history can also receive discounts of up to 25 per cent on life insurance premiums. A renewable and convertible term policy can be converted to a permanent product at any time without a medical exam.

Moreover, life insurance is not subject to provincial sales taxes as mortgage insurance is.

"Going apples for apples, life insurance owned personally is less expensive," Halpern said. "That's why people really need to go to a professional to see how the insurance fits into the overall plan."