Mortgage Insurance:
Protecting Your Most Valuable Asset

Of the tens of thousands of Canadians who will buy a home or renew their mortgage this year, most of them will purchase mortgage insurance with their lender. Is this option really the best way to ensure loved ones can continue to live in the family home in the event of an income earner's illness or death? Many Canadians are choosing to purchase individually owned life insurance and critical illness insurance which is flexible and gives the family more financial control, because the benefit may be used as they wish, rather than being restricted to paying off the mortgage.

LIFE INSURANCE COVERAGE

When you purchase an individual life insurance policy, your family can continue to live in your home while paying off the balance of your mortgage with the proceeds paid out in the event of your death. A Term 10 or Term 20 insurance policy gives you financial security at an affordable price. The monthly payments are guaranteed, as are the renewal rates. As your needs evolve, you can convert your term insurance policy to a permanent insurance plan at any time before age 65.

If you opt for a permanent insurance policy, you may accumulate money in the policy. Many people decide to dump extra money into their mortgage to shorten the payment period. Another option is to use that money to purchase a permanent life insurance policy. If an income earner dies, the benefit may be used to pay off the mortgage or, if they have a higher priority, it could be used for a more pressing expense, such as education for a child. If you remain healthy you could choose to pay off your mortgage years ahead of schedule by utilizing the cash value accumulated in the policy.

CRITICAL ILLNESS INSURANCE COVERAGE

An individual critical illness insurance plan will give you peace of mind should you develop a covered illness that could jeopardize your health and your ability to pay your mortgage.

In addition to helping you pay your mortgage balance, the lump sum paid when a claim is made can be used to pay for medical care not covered by the public health care system or for any other expenses. If you do not develop any illnesses during the time of your coverage, all of the premiums you paid (up to the sum insured) will be returned to your beneficiaries upon your death. Should you decide you no longer require the coverage, under the return of premium option, a portion or all of your premiums could be returned to you. The premiums returned can be used to pay off the mortgage ahead of schedule.

One Dozen Reasons to Choose Individually Owned Mortgage Insurance

- Designed to protect you and your family.
- You control and own your policy.
- You are the only one who can cancel your policy.
- Your premiums are guaranteed at issue for the duration of coverage.
- You can choose the amount of coverage you want and the maximum sum insured is much higher than with lending institutions.
- The life insurance death benefit and critical illness lump sum do not decrease unless you request it, in which case the premiums are adjusted accordingly.
- You name your beneficiary or beneficiaries.
- You can keep your coverage even after your mortgage is paid.
- Your only obligation is to pay the premiums. In the case of some permanent life insurance you may even take a premium holiday if you accumulate sufficient funds
- You may choose a return of premium option with critical illness coverage and the possibility of accumulating cash in many permanent insurance plans.
- Critical Illness Protection covers as many as 24 illnesses
- Individually owned coverage is portable. When you renegotiate your mortgage, you will not have to reapply.

One Dozen Reasons to Avoid Mortgage Insurance from Your Lender

- Designed to Protect the Lender
- The policy is controlled by the lender, who is also its owner and beneficiary.
- The lender's insurer can cancel the group policy, which provides your coverage.
- Your premiums can increase depending on the claim rate of the group covered under your group insurance.
- The amount of coverage is equivalent to the amount of your mortgage balance.
- As your mortgage balance decreases your life and critical illness insurance decreases, but the premiums remain level.
- The lending institution names itself as the beneficiary.
- Coverage ends as soon as the final mortgage payment is made.
- Any default on the payment of your mortgage is also considered a default on the payment of your mortgage insurance premiums. With most lending institutions, should this default continue for 90 days, you could lose your insurance protection.
- Lending institutions do not offer a return of premium on their critical illness coverage, nor the possibility of accumulating a cash value on their life coverage.
- Critical Illness protection offered by lending institutions covers only three to four basic illnesses.
- If, for any reason, you switch lending institutions, you will have to reapply for coverage. Your health situation may have changed and your application may be denied.