THE BLOG

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7 Reasons Why You Should Say No to Mortgage Insurance

Buying a new home can be a daunting experience -- especially if it's your first time. One thing that banks love to do is tie mortgage insurance into your mortgage agreement, right along with a dangerous-looking checkbox you need to fill in if you choose to "recklessly" opt out. Here's why I want you walk into that mortgage broker's office, check that box, sign that line and opt out of it with total confidence.

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PICTURES OF MONEY/FLICKR

Buying a new home can be a daunting experience. There's a ton of paperwork and some very legal, very serious-looking documents to sign. It all gets quite overwhelming, especially if it's your first time. One thing that banks love to do is tie mortgage insurance into your mortgage agreement, right along with a dangerous-looking checkbox and signature line you need to fill in if you choose to "recklessly" opt out.

What the banks don't tell you is that you may be far better off taking that leap of faith and signing away that mortgage insurance. Here's why I want you walk into that mortgage broker's office, check that box, sign that line and opt out of it with total confidence.

Let's get one thing perfectly clear: this isn't to say you don't need to insure your mortgage, but in most circumstances, an ordinary term life policy will do far better.

Premiums
With mortgage insurance, everyone pays the same premium. There are no discounts for, say, being a non-smoker or being healthy (or being a woman who will statistically live longer). So, you're usually not getting the best deal. Even if you aren't a chain smoker who eats a pound of bacon every day, you probably still aren't getting a better deal. In fact, you may be paying for nothing.

Underwriting
A scary, technical-sounding word that simply means that your insurance is "underwritten" to determine if you qualify. Assuming you do, your cost of insurance is based on your age, health, activities and pre-existing conditions, but as long as you qualify and pay your premiums, your coverage is guaranteed and the policy will pay out. The bank's mortgage insurance may use "post-claim underwriting." This means that they'll only decide if you qualify after a claim is made, at which point they may decide you never did qualify and wind up paying nothing. This practice seems terrible, but apparently it really happens, so buyers beware.
Declining Benefit
The bank's mortgage life insurance benefit value declines as you pay down your mortgage. So, while you continue to pay the same price for insurance, it's actually worth less. Traditional term policies keep their value and usually do so with lower premiums.

Beneficiary
With mortgage life insurance, the beneficiary is the bank -- with personal life insurance, you get to name your beneficiary. You (or rather, your beneficiary) will have the flexibility to choose how to spend the money. They may not need it to pay off the mortgage. They could choose to invest the money or just spend it *Brewster's Millions*-style. In general, though, this means better financial security for your loved ones.
Portability
Mortgage life insurance is tied to your mortgage. If you buy another home or chose a different mortgage lender at renewal, you'll have to take it out again. A simple term-life policy will be portable and continue to cover you regardless of who you have your mortgage with.

Needs Analysis
If you already have life insurance, you may actually already have sufficient (or partial) coverage for your mortgage. Only a proper needs analysis by an insurance adviser will determine that. Your mortgage lender will not bother with this and always cover the full mortgage amount.

Consolidation of Coverage
With private term life, you can consolidate all your insurance needs (mortgage, income replacement at death, education, childcare, etc.) into a single policy. This saves you money on overhead and fees of having multiple plans. With the bank, you can only cover the mortgage and must hold different insurance policies for the rest of your needs.

Finally, remember it isn't just an untimely end that you need insurance for to protect your mortgage and your family. Make sure to consider disability and critical illness insurance in case you become unable to pay your mortgage due to serious illness or injury. Most employers do offer some sort of coverage for this, but always make sure it's sufficient for your needs.

If you're not sure if you have sufficient coverage, a good insurance agent or broker will usually be able to give you practical advice on what works for you.

Tea Nicola is the Co-Founder and Chief Executive Officer of WealthBar, Canada's only full-service online financial advisor offering diversified portfolios of low-cost ETFs, insurance and financial advice. Passionate about personal finance, Tea is looking to change the way Canadians save by making investing smarter, more transparent, and at half the cost of traditional advisors.
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