

## Mortgage Insurance or Life Insurance ?

When buying a home or renewing a mortgage, many people think they are obligated to sign up for their financial institution's mortgage life insurance. Don't rush into buying your bank's insurance policy until you've looked at all the possibilities. You could end up saving money and getting added life insurance coverage at the same time by purchasing a term life insurance policy instead.

### What is mortgage life insurance?

Mortgage life insurance, also known as mortgage insurance or creditor insurance, is offered by most banks and lending institutions. It is a life insurance policy that pays the balance of your mortgage to the lending institution if a person listed on the mortgage passes away.

### How does term life insurance cover your mortgage?

When you purchase a term life insurance policy, you take into account all the money your family will need in case you are not around to help out. This includes your mortgage payments.

### Mortgage life insurance vs. term life insurance

Life insurance gives you more options and greater control over your mortgage protection. Compare these advantages to what happens when your mortgage lender insures your mortgage:

Mortgage insurance	Life insurance
Your insurance covers only your mortgage balance.	You can choose from different types of insurance (i.e. term or permanent) with a death benefit to cover more than just your mortgage.
Even though your mortgage debt reduces over time, your premiums remain level.	Your coverage amount does not decrease over time unless you choose to change it.
If you die, only the outstanding balance on your mortgage is paid off.	If you die, the death benefit is paid to your beneficiary who can use it as they see fit, not just to pay off your mortgage.
The mortgage lender is automatically the beneficiary.	You name the beneficiary.
If you take your mortgage to another company, you may lose your existing mortgage insurance and may be required to re-qualify for new mortgage insurance.	If you take your mortgage to another company you keep your existing insurance, so you don't have to re-qualify.
You lose all your coverage when your mortgage is repaid, assumed or in default.	As long as premiums are paid your coverage remains in place, even if your mortgage is repaid, assumed or in default.
You have no flexibility to change your coverage as your needs change.	If you decide you need coverage only until your mortgage is repaid but later realize you require coverage for other needs, you can convert your insurance to a permanent plan.

### Extra coverage with term life insurance

A term life insurance policy gives you added coverage and flexibility over a mortgage life insurance policy;

- One major disadvantage of insurance purchased through the bank is the ownership of the policy. The bank owns “your” policy and has complete control over it. The bank also happens to be the beneficiary of your life insurance policy. That means you have no say in who gets the death benefit or what the death benefit is used for. When you die the bank is going to use the proceeds to pay off the mortgage.

However with term life insurance your family receives any payout from your term life policy directly. It may be more advantageous for your surviving spouse or children to use the proceeds to invest and simply continue to pay the monthly mortgage payments. This would be most appropriate if the current mortgage interest rate is much lower than current investment rates of return available. They could simply invest the proceeds and use the investment income to pay part or all of the mortgage payments on a monthly basis.

- Mortgage insurance policies only cover you for the amount of your mortgage you owe to the bank. As you pay down your mortgage, your coverage amount decreases with it. This is called a reducing balance. With a term life insurance policy, you have a constant level of coverage for the whole term and are getting better value for your monthly payments.
- With mortgage life insurance, you have to reapply any time you switch lending institutions. But with term life insurance, unless you want to increase your coverage or terminate your plan, your policy is automatically renewed up to age 80 with no medical questions asked.

### Shop, compare and save

Depending on your age and health, the premiums on mortgage life insurance can be much higher than what you would pay for a term life insurance policy. Take the time to shop around for life insurance. Compare the cost of a term life insurance policy to a mortgage insurance policy. Chances are you'll find a term life insurance policy will have lower yearly premiums and offer more coverage and flexibility than a mortgage insurance policy.

While getting mortgage insurance through your lender is convenient, a term life insurance policy might be the way to go if you're looking to save money.

