Apr
11
2016

Insuring Your Mortgage Through Lenders

By admin

Marc and Lorna just bought a house and, like most home buyers, they needed a mortgage. During the financing process, they were offered mortgage insurance by the lender. They wanted to know more before taking the coverage.

Do we control the policy? Because the coverage is usually a group plan, the agreement is actually between the lender and the insurance company. Marc and Lorna would be insured under the policy and pay the premiums, but the lender would be the beneficiary and receive all proceeds on death.

Can proceeds be used for something other than paying off the mortgage? Marc and Lorna agree that it makes sense to have the mortgage paid if one of them dies, not necessarily paid off. They would like the survivor to invest the proceeds and use the income to continue making mortgage payments. That way, once the house is debt-free, the income can continue from the investment. The coverage through the lender dictates that proceeds will only be paid to the lender to pay off the mortgage.

Can we get better rates because we're healthy? In most cases with lender-provided coverage, non-smokers pay the same premiums as smokers. Some plans are now available that give non-smokers a break but they don't consider other lifestyle factors that could further reduce the premium.

Is coverage flexible? Marc and Lorna have other needs they want taken care of in the event of death. The mortgage coverage through the lender is for the mortgage amount only and decreases along with the mortgage balance. They would still have to arrange for other insurance to cover their additional needs.

Do we have to get coverage from the lender? Marc and Lorna learned that they can get their coverage anywhere they want. Another point that concerned them is that premiums for the lender-provided coverage are based on the amount of the mortgage, their ages and the length of the mortgage (amortization period). This means that if they pay the mortgage down quickly, they would continue paying full premium for coverage that has reduced along with the mortgage balance.

Can the survivor continue their coverage? Only one benefit is paid out by lender-provided insurance. For example, if Marc dies first, Lorna cannot continue her protection. If she is in poor health at that time, Lorna may not be able to get coverage at all.

By working with an insurance advisor, Marc and Lorna were able to take care of their total need for insurance, not just the mortgage. By using personal policies, they were able to get guaranteed coverage and premiums. They choose who receives proceeds when death occurs and the beneficiaries can decide how best to use the funds. Plus, coverage is portable.

Lender-provided insurance is generally tied to only one mortgage. However, some plans may provide for some level of portability of coverage, but there is usually a time limit. So, if Marc and Lorna rent for a period between homes, coverage could be lost.

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