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WHY MORTGAGE LIFE INSURANCE MAY NOT BE THE BEST BET

Allan Tong / November 9, 2017

Buying a house can be a stressful event, with more paperwork than the average consumer has ever faced. It's not surprising, then, that first-time buyers can inadvertently sign up for something they may not need—like mortgage life insurance.

"They're dealing with a lot all at once when signing mortgage documents," says Aaron Keogh, president of Greendoor Financial in Windsor, Ont.

He describes a first meeting with a young couple in their early thirties. They detailed their mortgage payments and property taxes, but they weren't sure if they had insurance for the mortgage. If something happened to one of them, how would they pay it off?

Keogh asked to see their mortgage statements. What he found didn't surprise him. "Each month they were paying a sum that included the standard principal, interest and property tax, but the couple didn't recall buying an insurance premium. I explained they had [purchased] mortgage life insurance through their bank."

Inadvertently buying mortgage life insurance is a common occurrence, Keogh says. (Mortgage life insurance is also called mortgage protection, creditor insurance or simply mortgage insurance, but it's different from mortgage *default* insurance or CMHC insurance, which protects a lender if a homebuyer who makes a down payment of 5% to 19.99% can't pay the rest of the mortgage.)
As first-time homebuyers, the couple was new to the mortgage process and waded through a lot of options, but didn't talk about insurance with the bank.

Bank employees are often "simply checking off a box on the application," says Keogh. The couple didn't discuss their health or disclose any pre-existing health conditions like diabetes or heart disease; the bank didn't demand a medical examination or medical records. "You don't have a nurse take blood and urine samples, vitals, and height and weight," says Keogh.

That's crucial because if one member of the couple, for example, already had diabetes and later died of a heart attack, the bank would not pay the death benefit. That would leave the widow(er) on the hook despite having made all the monthly payments.

Even if the couple still qualifies, warns Paul Shirer of Perfect Timing Financial in Toronto, "The lending institution is the only beneficiary, so they are simply taking an insurance policy on the borrower at the borrower's cost to protect themselves. So, even if there were any money left over, the bank is still covering itself because they are the sole and only beneficiary. There is no benefit to the mortgagor even though they pay all the insurance premiums."

Banks stress the ease of buying this insurance, which is strictly voluntary, without the need of medical exams. "Creditor insurance is a convenient and cost-effective way to help eliminate the burden of outstanding debt balances should something happen to you," says Chris Lobbezoo, vice-president of creditor insurance at RBC Insurance.

That can be helpful for people who cannot otherwise get insured, but for others, it may not always be the most cost-effective option. According to Scotiabank, if you're 26 years old and carry a $500,000 mortgage, you'll pay $55 per month as you carry your mortgage. (If you're 10 years older, it's twice that, amounting to $33,000 over 25 years.)

Also, that $55 per month won't change as you pay down your mortgage. That may be more than twice what a 26-year-old non-smoking male pays for standard life insurance, which can cost $20 to $25 per month (and just $15 to $20 per month for a female). The underwriting for standard life insurance is completed up front: medical records are examined, blood samples are taken, and the beneficiary (e.g., a spouse) is identified.

The Windsor couple asked Keogh if they could terminate their mortgage life insurance policy. He advised them to call their bank, and they were able to "without an issue," he says. For those replacing their policies, Keogh suggests they buy standard life insurance and "look at income replacement insurance such as disability insurance and critical illness coverage to fill the coverage gap."

When working with clients, make sure to read the fine print in their mortgage statements and advise accordingly.

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