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Should you say “Yes” to your **bank’s mortgage insurance?**

Here’s why you should think twice (and say no instead).

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Applying for a home loan is a big step and a reason for excitement. However, it’s also a great responsibility with long-term obligations.

If you’ve already initiated the procedure, chances are you’ll soon face a critical dilemma:

Should I sign up for my bank’s mortgage insurance, or is there an alternative solution?

To want to protect your investment in case the worst happens is perfectly reasonable. However, this is a decision that shouldn’t be taken lightly. It would help to first take the time to understand what mortgage insurance implies.

Your bank’s financial advisors will probably try to sway you into taking the route that benefits them. Still, you should know there’s more than one way to act responsibly and protect your family’s interests.

Here’s what you need to know about different insurance options and how to make an informed decision you won’t regret.

What is mortgage protection insurance?

Although they sound similar, mortgage insurance and mortgage protection insurance are two different things.

You may have heard about the first term: mortgage insurance. It serves as a protective measure for the lender if you default on your premiums.

If your down payment is lower than **20%** of your new home value, this is the insurance you need to buy.

However, mortgage protection insurance is a deal you don't have to take.

Why do banks insist on selling their mortgage protection insurance?

This type of life insurance covers your mortgage debt if something happens to you.

Unlike traditional life insurance, mortgage protection insurance puts your bank's interests first.

Additionally, the payout from this insurance gets smaller as you keep paying off your mortgage. **The premiums, on the other hand, stay the same.**

How does life insurance compare?

Traditional life insurance makes sure your needs come first. **With this insurance, neither your premiums, coverage nor payout change over time.**

If something happens to you, your family can count on the insurance money with no need to worry about any reductions.

How to leave your family in good hands?

If you die or become disabled, mortgage protection insurance lets your bank decide what to do with the insurance money. Typically, the bank will use the payouts to cover the remaining mortgage premiums first.

Meanwhile, your family stays behind—both without the mortgage debt and the financial help they need.

How could your family use the insurance money?

If something happens to you, your family could sell the house to pay the rest of the mortgage and keep the insurance money for any intended purpose.

Alternatively, they might decide to use the insurance payout to make mortgage payments and keep the house.

Unfortunately, with the bank's mortgage protection insurance, they don't get to make any calls.

How to direct insurance payouts toward you or your loved ones?

When you choose your bank's mortgage protection insurance, **the bank owns your policy.** If something happens to you, the bank becomes the sole beneficiary.

By contrast, choosing traditional life insurance guarantees **you are the policy owner.** You get the flexibility and the options to control any aspect of the agreement.

With life insurance, you can easily designate beneficiaries and change coverage amounts and payment methods at any time.

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How to make sure your claim doesn't get declined?

When you choose the insurance your bank offers, the process often seems quick and painless. The banks usually ask only a few questions and quickly approve such applications.

Unfortunately, when you file a claim, if they find grounds to decline your claim, your family will end up empty-handed at the moment when they need help the most.

Unlike banks, insurance firms go through your insurance application with a fine-tooth comb. They do all the underwriting upfront to avoid declined claims.

What to do to make the approval process more systematic?

With life insurance, you get assistance with completing your application meticulously. This way, no issues can come up later.

Suppose you are applying for higher coverage amounts (**$500,000 - $1,000,000+**) and you are an older homeowner. In that case, you will even go through specific health tests to improve your chances further.

How to cover your property value 100%?

When your mortgage comes up for renewal, so does the mortgage protection insurance.

In this case, your new premiums will be based on the updated mortgage balance, but this doesn't guarantee you'll be paying any less in the future.

Since you will be older at the end of the following mortgage term, there is a chance your premiums won't go down at all. **Quite the contrary: they might even go up.**

Traditional life insurance guarantees the premiums remain the same for the entire duration of your mortgage term. Also, it requires no additional proof of insurability.

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Can you remain covered if you change homes or lenders?

Mortgage life insurance coverage only applies to one home and is valid if the repayment terms stay the same. The coverage will no longer apply if you choose to change homes, terms, or the lender.

On the other hand, life insurance coverage can be moved to any home and applies regardless of changes of mortgage lender or repayment terms.

How to get better insurance at a more reasonable price?

The cost of a bank's mortgage life insurance is considerably higher compared to life insurance. It may cost you **6-7 times more.**

Compared to mortgage protection insurance, the savings with life insurance range between **20%** and **30%** per month on average.

For example, a non - smoking couple aged 45 can expect to pay **$68 per month for $500,000**, based on to-day's rates.

ONFin: life insurance that protects your interests

Oegema Nicholson is a third-generation family business and one of the largest independent insurance brokerages in Eastern Ontario and Western Quebec.

Our insurance and financial services are carefully designed and priced to fit your needs and budget. We take the stress out of life insurance planning by offering guidance, answering questions, and providing opportunities.

Proud to be the **#1 insurance brokerage in Ottawa**, we're here to help you manage your health and financial obligations without fear.

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