Protection for peace of mind

Insurance

By Denise Deveau, Canwest News Service March 30, 2009

June Jell will never forget the time she and her husband John sat down with their agent and turned mortgage insurance down flat. Six months later, he died suddenly of a heart attack at the age of 59, leaving her struggling to keep up with house payments.

While she got back on her feet eventually, it wasn't without sacrifices along the way --including the family home.

Now she tells everyone she knows, "If you can get it, take it. We thought mortgage insurance was expensive at the time, and because of our age we believed we could handle everything."

In retrospect, she realizes, "It really wouldn't have been that expensive after all. It would have been a blessing."

Insurance of any kind is one of those things people like to put on the back burner or do without. "A lot of homeowners don't want to add the cost of insurance to their mortgage payment," says Feisal Panjwani, a senior mortgage consultant with Invis Inc. in Surrey, B. C. "One of the biggest mistakes they make when they sign their mortgage is declining insurance, thinking they will research it on their own. Nine times out of 10, they don't get around to it. Then, when something goes wrong, it's too late."

It's not surprising that some homeowners balk at mortgage insurance, especially when they feel they are already stretching their monthly payments to the maximum.

Especially in these economic hard times, however, you can't afford to be without it, says Jennifer Hines, vice-president of creditor insurance for RBC Insurance in Mississauga, Ont. "Clients at all stages need to make sure their mortgage is protected. Some have life and disability insurance, but the family still could be left holding a debt on what tends to be a person's largest individual debt obligation."

The ideal time to look at options is when you do your mortgage application. The most common are insurance tied to the mortgage itself, or to the lender. Tying insurance to a mortgage balance is usually preferred since you can switch lenders and keep the same policy. This reduces the risk of facing higher premiums or finding out you are uninsurable when you reapply at another bank, Lorne D. Greenwood, a real estate lawyer based in Milton, Ont., advises.

"Getting insurance through an independent broker to cover the same amount means you won't have to re-qualify with each mortgage," Mr. Greenwood says. This is also a good choice when your mortgage balance decreases and you want to reduce your premiums. Mr. Panjwani notes that it's especially important for firsttime or younger buyers to get coverage because the mortgage balance is high, insurance premiums tend to be in their favour, and medicals are not generally required.

For those who think their disability and life insurance policies are enough if things go wrong, that may not be the case, Ms. Hines warns. "Typically, disability policies will only pay 60% to 70% of your monthly income, so there is still a gap. You still need coverage for other expenses. We tell people it doesn't have to be an either/or situation. We also suggest they consider whether they need to top up what they have, so they don't have to be concerned about mortgage payments in the event of a death or disability."

There are additional considerations homebuyers should be aware of regarding mortgage-related insurance. When it comes to high-ratio mortgages, according to the Bank Act anyone borrowing more than 80% of the value of the property must insure the mortgage to protect the lender against defaults.

The premium for this default insurance -- not to be confused with conventional mortgage/life insurance coverage -- is paid once at the time of the closing, at a rate that varies between 0.5% and 3.75% of the mortgage amount. Title insurance is also an increasingly important option for protection against title problems and fraud. "Just about every lawyer is recommending it," Mr. Greenwood says. "The premiums can range in price depending on the value of the home you are insuring."

Mr. Panjwani notes that buying mortgage insurance doesn't have to break the bank. "If you can't manage it all, cover what you can afford. For example, you can insure a percentage of a portion of the outstanding balance, or the life of one of the borrowers through a term life policy.

"There is no real right or wrong answer on what type of insurance you should take. Regardless of the choice, some coverage is better than none at all."