CANADIAN INVESTORS' COURSE

How to Properly Insure your Mortgage

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WOW! You finally did it!

Let's get the mortgage finalized.

"I'd like an all-natural, hypoallergenic, gluten-free mortgage with a low-carbon footprint prepared with recycled soy ink in a peanut-safe environment."

Walk into a Bank or Mortgage Broker office and they may say "when you die do you want this mortgage paid off"? You say, "of course". This concept makes total sense. But what may not make sense is *how you do it*.

Got a Mortgage? Want to do what is right for your family and save money too?

Mortgage Insurance

versus

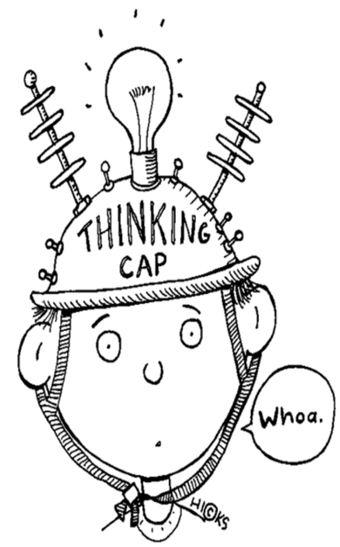
Term Life Insurance

So many forms to finalize the mortgage and then comes the "insurance form" ……*DON'T* sign it.

"I'm sure you know the penalty for reading the fine print, don't worry…JUST INITIAL IT!"

Take your time, relax and we are going to help you do your homework

You are not required to purchase the insurance from a lending institution. In fact, it's illegal for a financial institution to insist that you enter into a specific financial transaction, such as buying debt insurance from them, as a condition of some other transaction, such as getting your mortgage application approved.



Section 459.1 of the Bank Act: read this law carefully. Don't be intimidated! ***Read the second paragraph.***

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Your rights and responsibilities

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Tied selling: Your rights and responsibilities

Banks in Canada are **not** allowed to engage in "coercive tied selling" or "forced purchases." This means that banks are not allowed to unduly pressure or coerce you into obtaining a product or service from them or from their affiliates, as a condition for obtaining another product or service from them. This practice, called coercive tied selling, is illegal in Canada.

For example, if you apply for a mortgage at a bank, the institution cannot make you buy another product or service as a condition for obtaining the mortgage.

However, banks (and their affiliates) are allowed to offer consumers, in conjunction with one of their products, another product or service on more favourable terms than they normally would provide. This is similar to a company offering a deal or discount to its customers if they purchase more than one item from the company. For example, if you obtain a loan from a bank to purchase a Registered Retirement Savings Plan (RRSP) investment, the bank might offer you a better rate on your loan if you also purchase your RRSP investment from them.

Banks are also required to display, and make available in their branches, a statement that advises customers about the prohibition on coercive tied selling.

FCAC monitors compliance with this requirement.

What you should do if you feel your rights are not being respected

If you feel that a federally regulated financial institution is not respecting your rights, contact FCAC.

Let’s get serious and simply compare these two financial products and give a real live example.

Why get involved with this?

1. It’s smart to have insurance covering your mortgage because it protects your investment if you die, and gives you and your family “peace of mind”.
2. First time homebuyers are already up to their eyeballs in decisions. Everything is new. So much to do and think about. Budget is super tight in many cases. But after all of that, you want to protect your home, your investment.

Yes, I already know this so what is the right way to insure mortgage debt?

There are 2 ways:

A. **Financial Institutions and mortgage brokers can sell "mortgage insurance", "mortgage life insurance" and "creditor insurance" which all mean the same thing. The premiums charged are added onto your mortgage payments.**

B. **You can buy Term life insurance for the amount of the mortgage from an insurance broker or agent.**

Either way, your mortgage is paid off if you die. There are very big differences between the two options, one really big difference is the potential to save thousands of dollars through the life of the mortgage, and definite, true peace of mind.

Mortgage or Creditor Insurance

- Policy is purchased when you sign your mortgage papers. It’s offered by the bank and typically involves answering a few questions. It’s very convenient, but comes at a cost.

- Policy involves **“post-claim” underwriting**. Even though you are paying premiums, ***you’re not necessarily covered***. The insurance company will delve into your medical history after the claim is made….at death. If you had health condition when you signed the papers, whether you or your doctor were aware of this or not, and it’s not disclosed, your claim may be denied.

- Your premiums always stay the same, but the amount of insurance coverage declines as you pay down your mortgage. Coverage only pays for what is left on the mortgage. Again you are paying for a larger payout that is not there. The death benefit goes to the Bank, not your family. The bank is the beneficiary.

- Everyone pays the same premium. There are no discounts for being a non- smoker, or being healthy, or being a women who statistically live longer then men. You won’t get a deal, you may be subsidizing someone else.

- There is no portability. Your policy is tied to your Bank’s mortgage. If you buy another home or if you switch to another mortgage because you find a better deal, you have to apply again. Now you are older and hope your health is OK. Higher premiums will result.

- In most cases, this form of NON- underwritten insurance is very expensive. We have an case example at the end of this lesson.
- Seller at the institution gets a salary and may get extra paid bonuses for selling this product, it is a very lucrative financial product. Bonuses are usually based on a quota.

Term Life Insurance

- Term insurance is Underwritten. You must first qualify. Most likely you answer a series of questions and a nurse will visit you to determine if you qualify. The process is less convenient but once you qualify, the policy is underwritten, then there is no denying payment at death. The premiums will reflect your health situation, you won't be paying for a chain smoker too.

- There is no "declining" final benefit. If your mortgage was $500,000 in the beginning, your estate will receive $500,000 at death, tax free , no less. The Bank does not receive the insurance payout, your beneficiaries do, and they will determine whether to payoff the mortgage or not.

- Your insurance advisor should do a "needs" analysis. If you already have insurance, you may not need more for the mortgage or maybe you only need a partial amount more. Your mortgage lender will not bother with this and always covers the full amount, whether you need it or not. They can't do a needs analysis like licenced insurance professionals.

- With your own term insurance, you can consolidate all your insurance needs like mortgage insurance, income replacement etc., into a single policy and save on fees.
- Mortgage life insurance is tied to your mortgage. But a simple term-life policy will be portable and continue to cover you regardless of who you have a mortgage with. You can take advantage of better mortgage deals elsewhere with no worries having to pay higher premiums.
- Term life seller receives commissions or salary/bonus for selling this product

Mortgage Life Insurance is underwritten after Death. This gives the insurers great ability to find a way to disallow the claim at a time when you are no longer around to fight them.

A REAL term life insurance policy is underwritten **BEFORE** they let you buy it. That makes total sense and very simple. If you die, it pays. Period!

A real life example:

I chose a Canadian financial institution and presented parameters and data on a proposed mortgage and then looked for an alternative.

We generally feel that, when it comes to mortgages, most Banks are the same over the long run.

We are not trying on focus on any particular Bank, just that this example reflects the bulk of the industry.

Joseph and Ingrid Doe

- Sold their house in Mississauga, ON
- Bought a house in Oakville, ON
- both are age 40
- New house cost $900,000 and they made a $400,000 down payment
- they require a $500,000 mortgage
- Joe and Ingrid chose the local branch of one of the BIG 5 Banks for their mortgage

Mortgage terms at BIG Bank:

Quote date : December 12, 2016

Loan Amount: $500,000

Amortization: 25 years

Term: 5 years

Loan will be paid off after 25 years with scheduled payments

Interest rate: 3%

Payment: $2,366.23 monthly

Balance at the end of 5 years: $427,372.90

Mortgage payment is *$2,366.23* monthly for 25 years.

Your mortgage has an rate of 3%, these results assume that the interest rate does not change during the amortization period.

Payment Schedule

Year	Total Payments	Principal Paid	Interest Paid	Ending Principal Balance
				$500,000.00
1	$28,394.76	$13,673.49	$14,721.27	$486,326.51
2	$28,394.76	$14,086.77	$14,307.99	$472,239.74
3	$28,394.76	$14,512.55	$13,882.21	$457,727.19
4	$28,394.76	$14,951.19	$13,443.57	$442,776.00
5	$28,394.76	$15,403.10	$12,991.66	$427,372.90
6	$28,394.76	$15,868.65	$12,526.11	$411,504.25
7	$28,394.76	$16,348.29	$12,046.47	$395,155.96
8	$28,394.76	$16,842.43	$11,552.33	$378,313.53
9	$28,394.76	$17,351.48	$11,043.28	$360,962.05
10	$28,394.76	$17,875.90	$10,518.86	$343,086.15
11	$28,394.76	$18,416.24	$9,978.52	$324,669.91
12	$28,394.76	$18,972.86	$9,421.90	$305,697.05
13	$28,394.76	$19,546.31	$8,848.45	$286,150.74
14	$28,394.76	$20,137.10	$8,257.66	$266,013.64
15	$28,394.76	$20,745.73	$7,649.03	$245,267.91
16	$28,394.76	$21,372.77	$7,021.99	$223,895.14
17	$28,394.76	$22,018.77	$6,375.99	$201,876.37
18	$28,394.76	$22,684.28	$5,710.48	$179,192.09
19	$28,394.76	$23,369.92	$5,024.84	$155,822.17
20	$28,394.76	$24,076.27	$4,318.49	$131,745.90
21	$28,394.76	$24,803.98	$3,590.78	$106,941.92
22	$28,394.76	$25,553.70	$2,841.06	$81,388.22
23	$28,394.76	$26,326.06	$2,068.70	$55,062.16
24	$28,394.76	$27,121.77	$1,272.99	$27,940.39
25	$28,393.65	$27,940.39	$453.26	$0.00

Total Payments $709,868

Total Interest $209,868

Mortgage seller insurance product quote:

"What's the matter?! Afraid of a little competition?!"

Big Bank mortgage or creditor insurance quote:

- Both spouses are healthy, non-smokers
- Both are age 40
- This is a form of "first to die" insurance
- If one of the spouses die, the remaining principal on the mortgage is paid to the bank
- Monthly payment quote was $183.60 or $2,203.20 per year. Payment does NOT decline with principal owed
- If one person dies after 5 years, even though the payment is based on $500,000, the payment to the Bank, if everything is OK, will be $427,372.90. A difference of $72,627.10!
- Quote date was December 12, 2016

I discovered exciting news doing this exercise. BIG bank owns an Insurance company called BIG bank Insurance. I went there for a 25 year term quote. Here are my findings:

- Why wasn't I told about the Bank's insurance division? The law separates insurance companies and Banks. The BIG bank employee can't refer you to it's own BIG BANK insurance arm. BIG bank has a second division that sells insurance products too…wow two alternative choices with the same Bank, what a great company. Turns out that most Banks own an insurance division or two!
- I sat with a licenced insurance agent at BIG Bank Insurance for advice
- I asked for a quote on a $500,000 joint-first-to die 25 year term policy
- A policy that is first Underwritten for $500,000 25 year term cost $117.72 monthly or $1,412.64. Rate will NOT change for 25 years.
- You can stop payments and cancel this anytime.
- When a spouse dies, the beneficiaries (not the Bank) will receive $500,000 tax free, PERIOD, no matter what the remaining principal on the mortgage.

The Insurance Life agent that interviewed me began to ask questions and came up with another solution that never occurred to me. Amazing, I didn't know…
… next slide.

Why Not Get Two Separate Insurance Policies?

- The insurance advisor indicated that, based on the cost quoted at the Bank, it would make more sense to hold 2 separate 25 year Term policies.
- He proceeded to give me the two quotes. I was expecting a large number but I was surprised at the result!
- Joseph Doe, age 40, non-smoker would pay $74.10 per month or $889.20 per year. This was for $500,000 if Joseph dies before the 25 years is up and the policy is in force.
- Ingrid Doe only pays $53.15 per month or $637.80 per year. Why lower? Women live longer, so they pay less.
- Combined, both payments are $127.25 per month or $1,537 per year.
- Now they each have $500,000 policies. If they both die within 25 years, the beneficiaries get $1,000,000 for a monthly payment less than the smaller policy with the Bank. What a huge difference!!!
- The advisor also indicted that these policies can be convertible, meaning that Joseph and Ingrid can extend their term up to 25 years beyond that term up to 100 years, at which time the policy will be paid up. They wouldn't need another Underwriting. Premiums increase as you get older and extend term. Great feature.
- The advisor indicated that we do an insurance needs analysis to make sure all insurance needs are covered. He told me that if I give them the car and home insurance business, provided I like the deal, the 25 year term quotes will be reduced. Wow, more savings.
- A Banker or mortgage broker isn't licenced to do this.

Let’s Do A Recap

- On the “joint-first-to-die” insurance, the Bank product cost $2,203.20 per year
- The Term Insurance offered by the same Bank owned Insurance company cost $1,412.64 per year. A savings of $790.56 per year. What can your family do with an extra $790 for a better product coverage? Over 25 years you save almost $20,000.
- Surprisingly, you can get double the coverage ($1,000,000) for a savings of $676.20 per year or , at least, $17,000 over 25 years.

Our Conclusions

Based on this “real life” (no pun intended) example, the obvious choice is to go with the two individual $500,000, 25 year term policies. Get the home and auto quotes and **get much more in savings**. These are very large, serious savings. Ask what your friends and relatives are doing. Maybe they have already done this exercise.

How Should a Consumer Approach This?

Follow these steps:

- Find the house you want to buy
- Go to BIG bank or a mortgage broker and find out the size of mortgage you qualify for and the terms. The topic of mortgage or creditor insurance may not come up at this meeting.
- Buy the house. Congratulations!
- Go to Big bank's insurance office or any insurance broker for an analysis to insure the mortgage. Get a quote.
- Go to BIG bank to finalize the mortgage application forms. It is at this time that you are presented with the "sign the Mortgage insurance form". Insurance will be blended into monthly mortgage payments. Compare this with the other insurance product quote you attained before this meeting. Ask to sign a waiver form when signing the mortgage application. Indicate to the BIG bank mortgage Representative that you are going to their insurance division to get term insurance for the mortgage. Ask for the address of BIG bank's insurance division. They would be more than happy that you explore this route. Remember the law indicates they cannot refer you to their BIG bank insurance, you must ask them.

- **Be very suspect** if the BIG BANK or mortgage broker representative discourages you to go the Term Insurance route
- Term Insurance at BIG bank Insurance advisor involves Underwriting where a medical is required
- A nurse will go to your home, at no cost, and will ask a series of questions and do a blood and urine test.
- Enjoy the extra dollars saved and your peace of mind!

Saving money and better peace of mind is going to make you HAPPY! All due to a little bit of education.

What If You already have a mortgage and have the BIG bank mortgage insurance?

1. You should insure your mortgage. It's about what is best for your family.
2. In the majority of cases, its much better to get Term Insurance to insure the mortgage .
3. Go to BIG bank's Insurance advisor and get a quote on a Term Insurance Policy. Look back at the REAL LIFE quote exercise we did. If the quote is better than what you are paying now, then ask the Advisor to give you a form letter that you will give to your Bank to cancel your current mortgage insurance . THIS DOES NOT AFFECT YOUR MORTGAGE. It's done all the time.
4. Ask BIG bank Insurance advisor for a home and auto quote and see if you can get a bigger discount on the Term Insurance premiums. A banker can't do this. They don't have life insurance licences.

Want another perspective? CBC "Marketplace" did a great investigative report on mortgage insurance. You really have to see this on youtube:

https://www.youtube.com/watch?v=qe61HVGIwUo

Spread the news and tell people about this educational site, please. (if you enjoyed this)…P.S. put your extra savings into your child's (children's) RESP and get another government grant towards their college or university education. Look at another of our lessons to learn about RESPs.

Sample of a Mortgage Insurance Waiver Form that you can sign at the time of signing your mortgage application:

December 09, 2016

HomeProtector® Application Name:	Client Reference Number:
Mortgage Number:	Date of Birth (mm/dd/yyyy):
Branch Transit Number:	Date of Mortgage (mm/dd/yyyy):
Product ID No:	Insurance Cost per Payment:
Amount of this Mortgage:	Regular Payment:

A) **Type of Insurance:** Waive Life, Disability and Critical Illness

For eligibility requirements, refer to the "Eligiblity" section in the Certificate of Insurance.

B) **Health Questions:**

This section is not applicable if you are waiving or not eligible for HomeProtector® insurance

C) Please read before signing this application

You acknowledge that, for each of Life and Disability and Critical Illness insurance, this signed HomeProtector application replaces any earlier version of this application

For administrative purposes, you authorize the Insurer and the Insurance Service Centre to provide any co-borrower or guarantor of your mortgage with the status of your insurance

You have requested this application and all related documents to be in English. (Vous avez demandé que cedocument et tous les documents y afferents soient rédigés et signés en anglais.)

You will retain a copy of this application for your records

Signature: ______________________________________

Date (mm/dd/yyyy): _____/_____/__________

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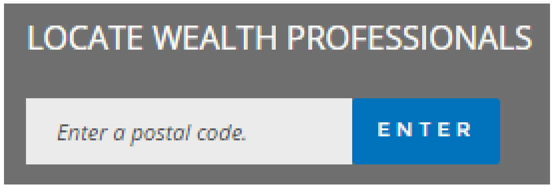

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