



## **Mortgage Insurance Don't Make This Misstep**

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After what seemed to be a pretty long downturn, the Vancouver real estate market appears to be rebounding, which is putting a lot of new buyers in a position that they haven't been in for a long time. Interest rates are low, and prices are unusually low. So this presents an opportunity for buyers, which puts me in a position to get on my soapbox about mortgage insurance. What's mortgage insurance? Well, mortgage insurance is life insurance offered by the bank to cover your mortgage, which shouldn't be confused with mortgage "default" insurance. It's offered by the banks, usually when you're sitting down and signing your mortgage, but it differs a lot from term insurance. For starters, the beneficiary is usually the bank or the lender, not someone you name. Also, unlike term insurance, the benefit drops as the mortgage goes down, but the premiums stay exactly the same. Another point of concern is that it's tied to your mortgage. So if you reapply for a mortgage at a different lender, you have to reapply for the insurance. And if somewhere along the line you were to get sick or your health were to decrease or you just aged, which most of us do, the premiums would go up. Or, worst case scenario, the insurance wouldn't even be available.

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A lot of times when you apply at the bank, the application process is much shorter than it is if you apply with an insurance company. The reason for this is something we refer to as underwriting at time of claim. In other words, at time of claim, (or when you die), that's when the insurer can go through the application with a fine-tooth comb, and if the I's weren't dotted and the T's weren't crossed perfectly, they can refuse coverage. Term insurance, on the other hand, is underwritten at time of application, which is exactly how it sounds. At the time of application, all the underwriting is done and a contract is signed. As long as there was no fraud during the application process, the insurer is bound by that contract.



That doesn't mean, however, that the insured can't cancel the policy at any time. But the insurer has to honor that contract as long as the insured is paying the premiums. So from my point of view, it's a no-brainer. Term insurance is always better than mortgage insurance. You own the policy, not the bank. You decide who gets the money, not the bank. You decide how long the term is, you decide how much you're covered for, and you don't have to worry about reapplying every time you move your mortgage. The good news is that if you do have mortgage insurance that you bought through a bank, you can always cancel it and get term insurance. Whatever you do, don't do it in that order. Always get the term insurance policy signed first before you cancel the mortgage insurance. That's A Murphy's Law thing. Okay, now I'll get off my soapbox.



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