"Discover The 13 Dirty Little Secrets Your Bank Doesn't Want You To Know About <u>YOUR</u> Mortgage Insurance"

<u>Monique:</u> Hello and Welcome every one to the call

"Discover The 13 Dirty Little Secrets Your Bank Doesn't Want You To Know About <u>YOUR</u> Mortgage Insurance"

My name is Monique Cornish and I am a Mortgage Specialist with The Mortgage Group's Vancouver office

Today I have Mark Huber on the line because of something that happened to my clients recently

Here's the story…a "case study" if you will…

A couple that I recently met with and placed a mortgage for asked me about "mortgage insurance"…

They already had "mortgage insurance" through their existing lender but wondered if they could do better…

So, to find out the answer I contacted my "go to" person, friend and colleague financial planner, Mark Huber, CFP.

Well, let me tell you that I was shocked to discover that if they continued on with their current insurance provider - <u>the bank – at $155/mo</u>. for $390,000 of "mortgage insurance" coverage - they would end up paying a total of $37,210 in insurance premiums over the next 20 years.

I was even more shocked to learn that for the same $390,000 of insurance coverage elsewhere (known as Term 10) their premiums could drop to $41.35 a month – giving them an immediate savings of $7,505 over the same 20 year period!

However, I was absolutely stunned to find that for the same $390,000 of insurance coverage elsewhere (known as Term 20) they could chop their premiums to $65.92 a month – giving them an instant savings of $22,560 over the same 20 year period!

So, what do you think they did?

I did some "arm twisting" to get Mark to agree to this call and to share with us his –" mortgage insurance investigation" of this couple and what it means to you and how you can benefit from it!

So Mark Welcome to the call!

Mark Huber: Thanks Monique for the time and the opportunity!

Monique: Its my pleasure, Mark why don't we cut to the chase and just dive in…

Mark Huber: OK Monique, sounds great…

I know that you all will remember the day just as if it was yesterday…

You were sitting in your bank managers office. Your heart was racing and your palms were clammy. You were about to sign off on paperwork that would formally make you indentured to the bank for what seemed the rest of your life.

Taking on the largest debt you would ever have in your adult life – a mortgage!

Everything seemed to be moving in slow motion…

You remembered that you and the banker had covered off things like the type of mortgage and it's terms and conditions and the amount and the total cost of it all.

You felt as if you were just about to commit the modern version of "hari kari".

You had just turned to your spouse and gotten the "It's OK dear" look…

So you picked up the pen.

But just before you began initialing and writing down your name – the banker asked – "of course you will be wanting mortgage insurance right?"

"What?" you ask, with a mouth full of cotton. "Mortgage insurance?"

You panicked.

"What does that mean?" "What does it do?" "And how much is it going to cost me?" And a host of other questions swirled though your head…

Well, after it was all over your wallet was lighter by another $50 a month (or more!) – and you still weren't sure why you had what you had.

But your spouse and your banker seemed pleased…so, you guessed that it must have been OK. Right? Well, right?

As the years rolled by you came to understand the benefits of mortgage insurance.

However, thoughts nagged at you at the same time.

You wondered if you could have done some preliminary research and shopped around whether you could have done better…

<u>Does any of this sound familiar?</u>

<u>Monique:</u> Mark, isn't it important to remember that mortgage insurance is just another piece of a comprehensive financial plan.

<u>Mark:</u> Yes, you are so right however and unfortunately, it is usually purchased as a "knee jerk" response to a question that comes right "out of the blue" to you. I mean, who is NOT going to say yes when asked, "Would you like to have your house paid off if you die?"

The problem is that coupled with the emotional response most consumers do not really realize that they have any options available to them and have NOT taken the time to do any price shopping.

Monique: I certainly know what "mortgage insurance" is but please explain to our listeners what it is.

Mark: Of course, mortgage insurance policies are offered through institutional lenders like banks and credit unions are essentially group insurance policies.

This type of insurance does one thing – and one thing only! It pays off the current balance of your mortgage to the lending institution if you die. **That's it!**

Essentially, mortgage insurance provides an insurance amount equal **ONLY** to your debt. As your mortgage decreases, so does the payout YOUR lender receives.

<u>I want to make sure that you got that!</u>

What this means is that <u>the premium dollars that you spend each and every month are the same constant for the duration of the mortgage!</u>

<u>But the amount of mortgage that this kind of mortgage "insurance" pays off on is ever declining – as you pay off the mortgage principal!</u>

For example: If as a young couple you start out on paying a mortgage insurance premium based on Oh, let's say $500,000, the $155 or so per month premium will discharge the mortgage **<u>(pay back the lender)</u>** on death - if one of the spouses dies - whether or not it's $500,000 on the brand new mortgage or $1.00 left after 30 years of diligent mortgage payments!

The premium cost of the insurance is based on the mortgage amount, and your age at the beginning of the mortgage, and the payments remain constant through the life of the policy.

Putting this another way, with mortgage insurance taken out through the bank <u>the amount of mortgage protection decreases as the mortgage is reduced – however, the premiums stay the same for the life of the mortgage.</u>

<u>I want you to be very clear on this!</u>

<u>I trust that everyone got that!</u>

<u>Monique:</u> That's quite amazing!
<u>Mark:</u> Yes, your absolutely right!

That means that on a per $1,000 of coverage (that's how insurance is priced) your cost actually gos up as you bring down your mortgage debt.

Bear in mind that most lenders have a maximum that they will give you as "mortgage insurance". Recently I came across a lenders site and they had a maximum of $500,000 – with "partial mortgage insurance" on amounts over the $500,000 mark.

Those of us living in Vancouver, British Columbia see "starter homes" listed in the news papers all the time for more than $500,000! So, how is the banks "mortgage insurance" really going to be of use here? (But I digress).

Then there is provincial sales tax!

In British Columbia there is a 7% sales tax added onto the "mortgage insurance" premium!

And mortgage insurance is great for the lender because THEY (not your spouse or children) are listed as the beneficiary of YOUR policy.

By contrast, when you outright own your personal life insurance policy your premiums remain constant – AND the "death benefit" remains constant as well.

If you were to die, your insurance policy would be paid out to YOUR named beneficiaries and THEY could make the determination as to whether to pay off the mortgage, or just pay down some of the mortgage.

The difference is that you have left your loved ones with money AND options!

Note: There is NO provincial sales taxes added to the premiums of individually held life insurance as THERE IS for your lender's "mortgage insurance".

Mortgage insurance is offered by most banks and lending institutions.

They'll offer it to you when you get a mortgage or refinance your existing one. In fact, every employee dealing with the public in a loan capacity MUST by the terms of their employment contract offer insurance to you. So, it's no wonder that banks are the biggest sellers of insurance to the public. And they make allot of money on this product.

(Note: Mortgage insurance is often a condition of getting your mortgage. Meaning that if you don't have your own coverage that they approve of and if you don't take what they are offering – you will not get your loan or mortgage – it's as simple as that!)

Monique: Yes, that's very true! Now what else?

Mark: "Mortgage insurance" is NOT "portable".

This is a "biggie"! If you buy a new home or switch mortgage lenders - you need to "re qualify" for mortgage insurance!

The likelihood of you now being older and less healthy are greater and of course the rates for the mortgage insurance premiums are higher! However, your health status may prevent you from qualifying for mortgage insurance at all.

With personal life insurance it matters not if you are buying or selling your home, "refinancing" or even if you have become "unhealthy".

In fact if you are healthy and have a good family history you can receive discounts of up to 25% on life insurance premiums.

If you have an existing personal life insurance program and you are paying your premiums you are just fine – NO ONE can take the policy away from you.

Monique: So Mark, and I know the answer here – but what's the alternative to your lenders "mortgage insurance"?

Mark: Well, as we have already touched on earlier **– YOUR OWN personal life insurance policy is the ONLY alternative that makes sense!**

In fact, the correct terminology is "renewable and convertible" term. This means that your "term" insurance policy can be converted to a "permanent" insurance product – if you wish - at any time and without a medical exam.

Monique: So How does "term insurance" cover my mortgage?

Mark: As it's name implies, "term insurance" offers protection for a specified term - or period of time. (Most "term renewable" insurance products run to age 80 - although you can purchase Term to 100 insurance).

Like any life insurance policy, a death benefit is paid to your named beneficiary if you die while the policy is still in force.

When you purchase a term life policy, you are covered for the full amount of insurance coverage you took out - not just the outstanding mortgage balance - for the life of the policy. That means you have a constant level of coverage for the whole term.

The benefits to you are that it's usually cheaper and you get to choose your beneficiaries.

And the proceeds from your term insurance can be used in any way your beneficiary deems necessary – not JUST to repay the mortgage.

Monique: So Mark what's the best option

Mark: Buying a new home – renewing your mortgage – or even at any point in between - is the perfect time to purchase term insurance to protect your mortgage and your family.

Based in its flexibility, coverage and price, term insurance is definitely a superior option to your lenders "mortgage insurance" program.

Remember, It's all about options! Having them - Or creating them!

Comparing “Mortgage Insurance ” and Term Insurance

Take a look at the major differences between protecting your mortgage with most lenders “mortgage insurance” coverage vs. a personally owned insurance contract.

Bank, Credit Union or Trust Company* “Mortgage Insurance”	**Individual Insurance Policy**
1. You are covered under a group policy owned by the bank.	You purchase a individual mortgage policy – that YOU own
2. You have no control over the policy because the bank owns the policy.	You own the policy and have complete control over it.
3. Features and provisions of the group policy are the same for everyone insured under it, only the face amount will vary.	You may select the type of plan you wish, the features and provisions you require with an individual life insurance policy.
4. The face amount of your policy can only be for the amount of your mortgage (no more no less).	You may purchase any amount of coverage you require.
5. Group coverage is always decreasing term insurance – the “face amount” – paid to the lender – declines as the mortgage declines. (as mentioned earlier)	You may purchase any kind of insurance either permanent or term insurance; level insurance or decreasing – **On death of a spouse proceeds are paid to the name beneficiary – not to the lender!**
6. Group policy can be cancelled by the bank or the issuing company at any time.	An individual mortgage policy cannot be cancelled unless you wish to cancel it yourself.
7. Group coverage could terminate upon the happening of any of the following events: a. mortgage is repaid	Your individual mortgage policy may be continued as long as you wish. It is a portable plan that can be used to cover any mortgage anywhere. (Statistics Canada report the average Canadian

b. mortgage is assumed c. house is sold	family moves every 5 years.) <u>This is a very important feature if you become uninsurable at any time.</u>
8. Group mortgage insurance is not convertible to another type of insurance.	An individual term policy can be converted to another type of insurance, regardless of health, usually until age 65.
9. <u>Group mortgage insurance does not allow you to make beneficiary designations or to select the settlement options. In the event of death the bank is repaid automatically.</u>	<u>An individual mortgage policy allows the owner to make beneficiary designations. The owner or beneficiary may select any of the several settlement options. In the event of death, your beneficiary will receive the proceeds from your policy. Your beneficiary can have the choice of repaying the mortgage or not, thus preventing hasty decisions. Proceeds are protected from creditors.</u>
10. Group coverage whereby both insured's are covered only pays on the death of one of the insured - not both. <u>Coverage on the survivor terminates and cannot be continued.</u>	An individual mortgage policy insuring both husband and wife covers each of them for the same amount. The proceeds will be paid, on the death of either one. <u>Should both the husband and wife die the proceeds are paid twice. Also, the coverage on the survivor may be continued.</u>
11. Cash values don't accumulate with group coverage.	An individual insurance policy can be designed to provide a return of your premiums over time and provide you with attractive cash values.
12. <u>No other benefits or features may be added to your group policy by you.</u>	<u>There are a number of features and provisions which you may add to your policy. You may wish to add a waiver of premium to you policy which would pay your premiums for you if you were disabled. Another option would give you the right to increase your protection regardless of your health.</u>
13. <u>When insuring through the group policy offered by the bank your bank</u>	<u>You are buying from a licensed professional that can help you in making</u>

loans officer is not a licensed life insurance agent and may not be well informed on various types of coverage available.	your decision. I can explain and offer you a great choice of plans. My service in the years to come can be invaluable
	A 30 day grace period is allowed after premium non-payment during which your policy is still in force.

**Some group policies at banks may differ from policy material described.*

Now, let's take a look at some examples.

First, let's assume a young couple living in Vancouver, both 33 years old, non smokers and in good health wanting a $500,000 mortgage AND insurance to cover off the "risk" of the loan.

Here is how their "mortgage insurance" premiums are calculated by one well known national lender.

The following is from the lenders Web site:

Affordable coverage provides great value.

Your cost of insurance is based on your age when you apply and the amount of your mortgage. Your premiums will not increase for the term of your mortgage, even as you get older†. It is comforting to know that this important coverage will remain affordable.

If two or more persons are insured with Life Insurance, a 15% discount will apply to the sum of the total Mortgage Life Insurance premiums.

For example, if you are both 33 years old and you are applying for a $500,000 mortgage, your monthly insurance cost would be:

Cost for You:	Cost for Spouse:		Your mortgage amount:
($0.13	+ $0.13)	X	$500,000 / 1,000
= $26.00 less 15% discount = $22.10 per month (plus 7% BC sales tax)†			

Your age	Monthly premiums† per $1,000 of single coverage

18 - 30	.09
31 - 35	.13
36 - 40	.20
41 - 45	.29
46 - 50	.40
51 - 55	.51
56 - 60	.70
61 - 65	.99
66 - 69	1.64

† Provincial sales taxes apply in certain provinces. Rates are subject to change without notice.

Your payments

Your insurance premiums are included as part of your regular mortgage payment. They will be converted to the payment frequency that you choose for your mortgage payment.

Easy application method

Applying for Mortgage Life Insurance has never been easier. In most cases, you only have to answer a few health status questions.

You are eligible to apply if you are a Canadian resident, between the ages of 18 and 69, and approved for an ABC residential mortgage or the guarantor of the mortgage.

Satisfaction guaranteed!

Mortgage Life Insurance comes with a satisfaction guarantee. If you are dissatisfied with Mortgage Life Insurance for any reason, you may cancel your coverage for a full refund within 30 days of purchase.

Now let's go through the calculations:

The base rate for each person of our couple is $0.13/thousand.

So that means the combined base cost for the couple is $0.26/thousand.

Less the 15% discount brings us to $0.2210/thousand PLUS the 7% BC provincial sales tax of $1.55 for a grand total of $0.2365 per month of premium cost/thousand of insurance coverage.

However, we are not finished yet!

Remember, that insurance rates are quoted on a per $1,000 basis…

And our couple wants $500,000 of insurance coverage.

So…we now multiply $0.2365 X 500 and we get the grand total of $118.25 per month for $500,000 of "mortgage insurance coverage".

To make this a simple but fair comparison lets assume that our couple will pay off their mortgage in 20 years or 240 months.

240 months X $118.25/mo. = $28,380

Our couple, by just taking what was offered and with no "shopping around" will be paying a total of $28,380 of total insurance premiums paid over the course of their 20 year – 240 month amortized mortgage!

And remember, the premiums are "fixed" at this rate even as they are paying down their mortgage.

Good deal?

Well, let's continue…

Let's say that our couple got a hold of a report much like this one before they went in to their lender for a mortgage.

And lets say that they shopped the market using the pre-eminent insurance quote comparison service for Canadians at **Term4Sale** http://www.term4sale.ca/

(**Term4Sale** is most unbiased term insurance comparisons program on the web because **Term4Sale** does not sell insurance – and no agents will be calling you. **Term4Sale** is owned by COMPULIFE Software, Inc. http://www.compulife.ca/ which sells term comparison software to thousands of life insurance agents – just like me - throughout the U.S. and Canada.

If you just want to see how much insurance you should have – or need **Term4Sale** http://www.term4sale.ca/ **has a great insurance needs calculator for you to use – FREE.**

In fact, I use it all the time!

OK, back to the business at hand…

We are only going to be concerned about the first 20 years of coverage as we had already agreed that the mortgage will be paid of in 20 years or 240 months.

For our 33 year old male non smoker - $500,000 - 10 year term renewable to age 80 the premiums are:

$27.90 a month for the first 10 years
$127.35 a month for the next 10 years

<u>Total premiums paid for 20 years = $17,250</u>

Not bad!

However, as the mortgage is going to run for 20 years what does his 20 year term rate look like?

$43.65 a month for 20 years = $9,700

<u>Do you see something here?</u>

<u>By paying slightly more initially for the 20 year term the premiums remain constant – do not renew – at the 10 year marker as the 10 year renewable this individual just saved himself $7,550 OR 56%!</u>

<u>Monique:</u> OK Mark. Now let's see how his spouse will fare…

We go back to **Term4Sale** http://www.term4sale.ca/

And plug in the information for:

For our 33 year old female non smoker - $500,000 - 10 year term renewable to age 80 the premiums are:

$20.70 a month for the first 10 years
$93.15 a month for the next 10 years

<u>Total premiums paid for 20 years = $12,650</u>

Again, not bad!

However, by paying a small amount extra initially the 20 years term is still again far superior from a cost point of view.

$32.40 a month for 20 years = $7,200
Did you see it again here?

There is a savings of $5,450 OR 57%!

Now to be fair let's aggregate the insurance costs for our couple.

Total 10 year term for our couple:

Him: = $17,250
Her: = $12,650
Total: $29,900

Total 20 year term for couple:

Him: = $9,700
Her: = $7,200
Total: $16,900

So…does it pay to shop around? You bet it does!

Oh, and what was the banks solution for our couple?

$28,380 in total premium costs for $500,000 of "mortgage insurance" coverage!

Monique: Wow! That's amazing stuff! And as you have said before every dollar you hand to the bank is a dollar that you did not save or invest for yourself.

Mark: Yes, that's right! The whole notion of insurance (not just life insurance) is important to understand.

Life insurance is simply the guaranteed delivery of dollars on death. If the death of a certain person would create a financial hardship for others, then insurance is often the best solution to that problem.

Monique: It's all about assessing risk isn't it?!

Mark: Yes, that's right. Once we identify a risk we ask ourselves:

"Am I comfortable with this risk?" (A $500,000 debt.)

"If something happens to me – who is left with and responsible for this risk?" (a spouse)

"Should I "self insure?" (I have $500,000 in investments what could be liquidated if necessary)

"Can I "off load" this risk? If so, how much will it cost me?" (I am prepared to pay a reasonable amount to have an insurance company assume the risk on my behalf.)

That's what "risk assessment" is in a nut shell. <u>We either dismiss the risk, self insure for the risk or "off load" the risk!</u>

<u>Monique:</u> Frankly, if insurance were FREE we'd all own as much as we could because – well, it's FREE! Right?

<u>Mark:</u> Yes your absolutely right! <u>What other product allows you – on death - to instantly create an estate for literally pennies on the dollar!</u>

It's life insurance!

Now while insurance is not free it IS affordable.

So then it becomes a budgeting and cash flow question. "How much can I/we afford?"

Young families starting out have way more debt and liabilities than assets.

So to protect themselves and their loved ones they take out insurance.

I vividly remember – like it was yesterday, having conversations about insurance with many of my young clients.

Unfortunately, there were times when the couple had to go with a 5 year term insurance product because they just couldn't afford the additional $10 a month or so for a 10 year term – let alone a 20 year term.

Yes, I realize that it does all comes down to cash flow…

However, knowing what I know now, and for the benefit of my clients, I should have been more persuasive in recommending a longer term to my clients – as I do now.

Monique: Why is that?

Mark: Well, not only because of the analysis that we just conducted with our couple earlier but now also because of changes in the housing and mortgage markets.

Now, just before I leave you I wanted to say one more thing.

When you purchase Term insurance it will automatically renew at the predetermined interval (5 years, 10 years, 20 years, etc) without you having to do anything.

It will also renew at the guaranteed renewal rate. (These rates are contractually guaranteed by the insurance company and can be found on the first or second page of your term policy).

Now, when you first got your policy you probably didn't bother to check this information out – that's very understandable. Or if you did, you have forgotten what the amount was going to be.

Well, that may change when you get your "renewal" notice.

To the unprepared these rates can carry with them a kind of "sticker shock". Now keep in mind that the insurance company hasn't seen you since you first took out the policy and they don't know what type of physical or medical condition you are in now.

If in the intervening years your medical and/or physical condition has changed for the worse – you are extremely pleased to have your insurance policy – even with the higher renewal rates. So you do nothing!

However, if you are still in good health you should seriously consider going through the "underwriting" process again. Chances are that the company will still want you as a client but with new data can underwrite you with the new information in mind – usually at a BIG discount to the guaranteed renewal rate.

(Note: If you are going to undertake this route do NOT cancel any insurance coverage you have until a new policy is placed and in force!)

I often do summary quotes for clients in term insurance once we are in it half to ¾ of the way through the current term – and then “re write” their insurance for them.

I don’t mind putting in the time and they appreciate saving money!

In closing...

When asked about insurance needs, people sometimes say things like, "Oh, I have insurance."

To that I say, great, but that's a little like heading out on a seven-day hiking trip in the backwoods and saying "I'm okay, I have some food." Does this mean four Power Bars and a bottle of water, or a seven-day supply of rations, based on a realistic estimate of the amount of food that will be required each day? To do this right, you would add up the number of meals, the expected calories to be expended and a reasonable reserve for unexpected contingencies.

You would not want an extra large reserve, as this is extra weight to carry.

Monique: To my mind, that analogy carries through to life insurance. You need to sit down and take the time to add up your needs. If you consciously decide to be under-insured, then you are making a decision to have your family or business partners share the risk.

Mark: That's right, there’s neither good nor bad, as long as it's a conscious decision. By the same token, you probably don't want to have excess insurance either because you are not using your cash flow as efficiently as possible.

If you just want to see how much insurance you should have – or need Term4Sale http://www.term4sale.ca/ has a great insurance needs calculator for you to use – FREE.

In fact, I use it all the time!

Just before I go - a quick note about Critical Illness Insurance (CI insurance). When you sit down to finalize the mortgage documents with your banker/lender not only will you be asked if you will be taking out “mortgage insurance” **you will also be asked about purchasing Critical Illness Insurance – with them!**

If you have not heard about Critical Illness – it’s a great product!

If purchased individually, a tax free lump sum of money will be paid to you within 30 days, once (God forbid) you have been diagnosed with one of the 26 covered diseases – cancer, heart attack, coronary artery bypass surgery, stroke, blindness, kidney failure, multiple sclerosis…well, you get the idea…

You can even elect to get your premiums paid back if you were to die and if you have been claims free for certain periods of time you get all the money you paid as premiums – back!

However, I digress…

The banks are the biggest sellers of CI insurance.

Now, that in itself is not necessarily bad, however, the bank purchased CI product is a “group” policy (much like their “mortgage insurance” policy) it is definitely not the same product as one that you would purchase personally and control yourself!
If you have a mortgage, buying critical insurance makes sense.

But making the bank the beneficiary is nonsense!

Sure, it’s convenient to buy critical illness from the bank (that’s why they are the #1 seller of this type of insurance). **But if you get sick, it is they (the bank) who will receive the cash benefit – not you or your family!**

When you buy your own policy you get the money! And you can do whatever you want with it!

Now that makes more sense.

Doesn’t it?

So in closing, I trust that you have discovered not **JUST** the **“The 13 Dirty Little Secrets Your Bank Doesn’t Want You To Know About YOUR Mortgage Insurance”** but a ton of other great and useful information that can **empower you – if ACTED UPON!**

Monique: Great information Mark now as always we have an offer for our loyal listeners on the call today

And so today for anyone who calls and asks me for the "mortgage insurance investigation" I have persuaded Mark to do a FREE analysis for them!

Call me at: 604.707.6324

Or
Email: monique@mortgagegrp.com

Monique: For anyone wishing to speak directly to Mark his telephone number is 604-207-9970 and email is mhuber@HowToBeSetForLife.com

Thanks Mark for taking the time to allow us to discover

"**The 13 Dirty Little Secrets Your Bank Doesn't Want You To Know About YOUR Mortgage Insurance"** but a also a ton or other very useful information that can **empower people – if ACTED UPON!**

Mark: It has been my pleasure **-** Your very welcome

Monique: So to close the call today, my name is Monique Cornish of the Mortgage Group and I wish you all good luck in your mortgage and financial life…

- End Call -