

Canadian Mortgage (Creditor) Life Insurance

What you need to know

Buying a home is a major investment, and usually this means getting a mortgage from either a bank or some other financial lending institution.

Most of the time the lending institution (often a bank) requires some sort of mortgage insurance (i.e. creditor insurance) before they will approve the application.

What is often not made clear by banks is that term life insurance is an alternative to the creditor insurance that they offer.

In fact, term life insurance has many advantages compared to bank mortgage insurance!

Switching to term life can save you a substantial amount of money!

To list just a few advantages of term life:

- The beneficiary is whom you choose (e.g. spouse), instead of the lending institution.
- You own the policy, and not the lending institution.
- Many policies can be converted to permanent life insurance for investment and tax purposes after the term is finished (dependent on the policy).

Here is an example scenario:

Mr. and Mrs. Smith have purchased mortgage insurance from their bank when they bought a home. Unfortunately, a few years later Mr. Smith passes away. The bank immediately forces Mrs. Smith to pay off the entire mortgage with the proceeds of the policy, even though Mrs. Smith has other pressing needs for those funds (there are several tuition fees from her children to pay for, and renovations need to be done).

If they had purchased term insurance then Mrs. Smith would be the beneficiary, and would receive the benefits. It would then be at her discretion whether or not to pay off the entire mortgage, or pay part of it and use the other proceeds elsewhere.

It would be especially advantageous not to pay off the entire mortgage if they had obtained it at a good interest rate.

Compare Term Life and Bank Mortgage Insurance

Please use the following table as a comparison between bank mortgage insurance and term life insurance.

Question	Term Life Insurance	Bank Mortgage Insurance
Can the mortgage insurance be converted to permanent insurance?	Yes, renewable and convertible plans are available, which can be converted to a permanent plan without any further medical questions.	No.
Do the death benefits remain the same?	Yes, and only you can make changes to the amount of coverage once a policy is issued.	No. Bank mortgage insurance only covers the amount of the loan outstanding: as you pay off your mortgage the benefit decreases (this happens quicker if you pay your mortgage at an accelerated rate).
Who owns the policy?	You do.	The lender holds the contract with the insurance carrier.
Can I add optional benefits to the coverage?	Yes, additional coverage may be obtained. The options depend on the insurance carrier.	No.
Do I have any control over the policy's beneficiary?	Yes, you determine who the beneficiary is. The beneficiary uses the proceeds to either pay none, part of, or all of the mortgage.	No, the bank is the beneficiary.
What if I move?	No effect.	The insurance terminates with the mortgage.
What about medicals?	Usually, but only once (prior to approval).	You might have to re-qualify with new rates.
Can I keep this insurance for life?	Yes.	No, it terminates at age 65.
Are the premiums taxable?	No.	Yes (provincial sales tax).