What Is Mortgage Insurance And How Does It Work?

Mortgage insurance is generally sold by banking representatives at the time of arranging your financing. It is a life insurance product whereby the amount for which your life is insured is roughly equal to the amount of your mortgage. The insurance pays a benefit upon your death—not if you are unemployed or disabled.

When a couple is applying for mortgage insurance, they are usually insured on a joint basis, which means that the policy would pay out a benefit only upon the first spouse's death. If both spouses were to die at the same time, the insurance policy would still only pay one death benefit. The balance of the outstanding loan is all that is paid.

Further, the death benefit ***decreases*** incrementally on a yearly basis, to coincide with the outstanding amount of your mortgage. At your mortgage anniversary—usually every five years—the cost of the insurance will increase.

With mortgage insurance, you are not given a choice regarding the beneficiary. The lender is automatically the beneficiary, not your Estate or surviving spouse.

Lastly, with mortgage insurance you do no medical underwriting or qualifying up front. It is all done when a claim is made which means your claim could be denied when your spouse or family is depending on it.

Does this sound like what you signed up for?

If you choose to purchase your life insurance from an independent insurance advisor, rather than from the lending institution, you can name whomever you want as your beneficiary. Your beneficiary could invest the proceeds and use the growth to continue paying the loan payments if they wish.

Buying your insurance separately from your loan allows your insurance advisor to shop and get you the best rates possible. Your rates for the coverage can be locked in to match the length of your mortgage if you like so you get price stability and certainty. All the qualifying and medical underwriting is done up front so the coverage is there when you need it most.

Interestingly enough, you can usually obtain two individual, single life insurance policies for a husband and wife from an independent insurance advisor for roughly the same price as a mortgage insurance policy. Definitely sounds like much better value for your money, wouldn't you agree?