

A potential “helping hand” for a homeowner’s heirs. No one wants to saddle their heirs with the hard choice of paying off an unsettled mortgage or selling or losing a home. A mortgage term life insurance policy can provide relief in such a dilemma.

Simply put, this is a term life policy designed for homeowners. If you die owing a huge sum to a mortgage lender, the proceeds from the policy will pay off the note.

Why, and why not? The pros and cons of mortgage term life are simply stated. On the plus side, you are paying (relatively) little for a lot of potential mortgage protection, which could be useful if your heirs are in no financial shape to make mortgage payments. On the negative side, term insurance is term insurance. If you live past the term of your mortgage term life policy, no benefit will be forthcoming for all those premiums.

You don’t find many fans of mortgage term life insurance in the mortgage industry. Their argument is that a regular life insurance policy might do the job just as well, and give your heirs more flexibility besides. Still, quite a few homeowners want mortgage term life insurance and appreciate its designated purpose.

Basic types. The cheapest type of mortgage term life is the level premium/level benefit policy. You can commonly purchase them with 20-, 25- or 30-year terms. As the name implies, the premiums are guaranteed to stay level for the entire policy term, and the benefit amount does not decline with time.

You can still find the original kind of mortgage term life policy, in which your premiums stay level but your coverage shrinks as your mortgage balance diminishes. While some banks and insurers still offer these “old school” policies, they are getting scarce.

An interesting alternative. Some homeowners decide to get a return-of-premium term life policy instead of a mortgage term life policy. With an ROP term policy, the insurance company will give you all of your premiums back if you outlive the term (provided, of course, that you’ve kept your policy in force). Someone with 20 years left on a home loan could get a 20-year ROP term policy for an amount comparable to their mortgage balance and get all the money paid into the policy back without a tax consequence if they are alive two decades later.¹ That money could be used for any need or objective.



A Look at Mortgage Term Life Insurance
What are the pros and cons of paying for mortgage
protection?
January 11, 2010

So how is this different than private mortgage insurance? Well, PMI isn't about protecting you at all – it's about protecting the lender in case you default on your home loan. It diversifies that risk to a third party.

Should you look into these options? You might be in a situation in which you really don't want to risk burdening your heirs with an existing mortgage – especially if they are trying to pay off one themselves. Or, maybe you want a more flexible insurance option that could be used to pay off a mortgage or meet other needs. Talk to your financial or insurance advisor today to explore this a little further.



A Look at Mortgage Term Life Insurance

What are the pros and cons of paying for mortgage protection?
January 11, 2010

These are the views of Peter Montoya Inc., not the named Representative nor Broker/Dealer, and should not be construed as investment advice. Neither the named Representative nor Broker/Dealer gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information.

Citations.

¹ usnews.com/usnews/biztech/articles/041025/25insurance.htm [10/17/04]