

Mortgage Life Insurance

Mortgage Life Insurance vs. Term Life Insurance

If you are considering taking out a mortgage, chances are, your financial institution will ask you if you would like to purchase life insurance along with it. This is not as strange a concept as it might seem at first – the institution only makes a profit if you repay your mortgage. If something happens to you that makes you unable to do so, the lender loses money.

The mortgage life insurance, however, is not offered strictly for the bank's benefit. Should you pass away, your survivors may be unable to continue making payments on the mortgage. One way of protecting them from the financial hardship and of maintaining their standard of life is by purchasing mortgage life insurance.

Mortgage life insurance is most similar to term life insurance, where the term is the same as the term of your mortgage. Some aspects, though, are unique to this specialized type of coverage.

First, you should keep in mind that mortgage life insurance has a dual purpose. Regular term insurance is meant to protect your loved ones from financial hardship. Mortgage life does this as well, but it is also meant to protect the lender's investment. Your bank has a vested interest in you being insured as long as you owe payments on the mortgage.

Another difference is the amount of the benefit: Your premiums remain the same for the term of the insurance policy, regardless of whether it is term life or mortgage life. What changes is the amount of the benefit. In a term life policy, your beneficiaries will receive a specified amount should you pass away. That amount remains constant for the entirety of the term. When you purchase mortgage life insurance, the benefit amount is always equal to the balance of your mortgage – and decreases constantly as you make payments on your mortgage. You may discover a few years down the road that you are paying the same premiums, but your benefits are now a mere half (or even less!) of the original amount you were insured for.

To replicate the advantages of a mortgage life policy, you may specify more than one beneficiary for the term life policy – the bank, for the outstanding balance on the mortgage, and your family for the remainder.

The primary factor to consider when deciding between a term life and a mortgage life policy is each one's cost. Your bank will offer competitive rates, but they will not necessarily be the lowest rates possible. You should consult with an

insurance agent to find the best policy to suit your needs. With a wider selection of policies, you may find one that both matches your needs and puts as little strain as possible on your budget.