



Do You Really Need Mortgage Life Insurance? DLC

The newest trend in financial services is to bundle services together and sell them as package deals. As this trend is developing, more and more lenders are starting to push the idea of mortgage life insurance on their clients.

Mortgage life insurance is simply a life insurance policy on the homeowner which will allow their family pay off the mortgage on their home should something tragic happen to them. This is not to be confused with private mortgage insurance which lenders require to cover their own assets if you have less than 20% equity in your home. Mortgage life insurance is meant to help out the family of a homeowner and not the mortgage company itself.

While it is nice to think that if you were to pass away your mortgage would be paid off, is this really necessary for you to pay for this service? If you already have an adequate amount of life insurance then the answer is probably no. However, if you are in ill health and do not have life insurance, this might be an option you would want to consider.

The basis for life insurance, in any form, is that it is intended to be used for those unlucky few who pass away during the term of their policy. The many other people who pay for their policy, but do not die during its term, are the ones paying out the money for those who are less fortunate. This means that if you are healthy and less likely to pass away during the term of your mortgage, then you are essentially paying for someone else's mortgage through your payments.

One of the downsides of mortgage life insurance is that the premium stays the same whether you owe \$1,000,000 or \$1,000 on your property. In the beginning, when your mortgage principle balance is still very high, the premium makes sense. However, as you pay down your mortgage that premium gets to be over-inflated compared to the mortgage it is meant to take care of if something happens to you.

If you are the primary breadwinner in your home and your death would leave your family without the means to pay for the mortgage, then mortgage life insurance might be a good option. However, if you are relatively healthy then you might want to consider a good term life policy instead. A term life policy will likely be cheaper over the long-run and will also cover more of your family's needs as your mortgage amount drops over time.

If you do not have dependents then it is futile to pay for mortgage life insurance. If no one will need to live in the home and make the mortgage payments, then life insurance does not make any sense. The person who inherits your home can simply sell it and keep the profits as their inheritance.

It is always a good idea to look at both bundled and single option financial products. By evaluating what you really need, and the differences in coverage and costs, you can make the best decisions for your life and your loved ones.

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