

Creditor vs Term Insurance: Know Your Coverage



Purchasing a home is often the biggest investment you'll make in your life. Ensuring you protect your loved ones in the event something catastrophic happens to you is important. Creditor insurance is almost always offered when applying for a mortgage as a quick, convenient way to insure that major purchase.

While convenient and easy to apply for, is creditor insurance the best option for protecting your biggest asset or is owning your own term policy a better option?

	Creditor Insurance	Term Insurance
Application Process	Simple application - typically a few basic questions to answer. Free look coverage. If insurance is approved prior to advance you may still be covered.	Subject to more rigorous underwriting. Past and current health history factored into the approval process and premiums.
Ownership and Beneficiary	<p>You are the owner, but the lender sets the terms of the policy.</p> <p>Creditor insurance protects your lender. If you die suddenly, your lender receives the benefits from your policy – not your family.</p>	<p>You own the policy, you decide the terms, duration, and additional riders.</p> <p>You choose the beneficiary of the policy. This can be changed as needed. The Beneficiary receives the full benefit when a claim is made.</p>
Underwriting	Underwritten after claim - a more rigorous review of health history is undertaken after claim, prior to paying out. If a previous medical condition is discovered your claim could be denied, even though you paid the premium.	Underwriting prior to policy approval – questionnaire and possible medical examination. Claims process generally is very straightforward.
Premiums	Premiums based on age at time of application and amount of lending. Premiums are added to your current mortgage payment.	Premiums are fixed for the term of the policy. Policy is renewable, allowing coverage to stay in place after original term expires (with new premium amount), without providing proof of insurability.
Flexibility	Insurance is not transferrable. Should you increase your outstanding balance, transfer your mortgage to a new lender or move to a new home, your coverage does not go with you. You will have to reapply with a new premium.	A term policy is permanent and stays with you regardless of your mortgage amount, which lender you use, or where you live. As long as you pay your premiums your coverage remains in place.
Value	As you pay down the loan your debt the amount of coverage reduces with it, but your cost does not change.	The value of life insurance remains the same throughout the life of the policy. This provides coverage for not just your debt, but is also available for you as your family situation changes.



Whichever type of protection you choose, costs will be an important factor. Below is a hypothetical scenario comparing creditor life insurance vs term life insurance on a \$500,000 mortgage balance.

Assumptions: \$500,000 mortgage, 25yr amortization, 2.94% interest rate, payment of \$2,350.87/mth.

	Creditor Life Insurance		Term Insurance			Term Policy Savings
	Single Life	Joint Life	25yr Term Policy	Single Policy	Both policies	
Age 25	\$ 48.60	\$ 81.00	Male age 25	\$ 33.61	\$ 54.67	\$ 26.33
			Female age 25	\$ 21.06		
Age 35	\$ 70.20	\$ 118.80	Male age 35	\$ 49.05	\$ 78.34	\$ 40.46
			Female age 35	\$ 29.29		
Age 45	\$ 156.60	\$ 264.60	Male age 45	\$ 117.90	\$ 187.29	\$ 77.31
			Female age 45	\$ 69.39		

Term Policy quotes assume standard risk, non-smoker status.

Every client situation is unique and careful consideration should be taken when choosing the type of insurance that is right for you. A licensed insurance professional can help you choose the right coverage, at MW&Co, we’re here to help.

Have Questions?

Contact a MW&Co. Insurance, Pensions and Benefits representative at **519-539-6109** or email mwcowealth@mwcowealth.com if you have any questions regarding this or any other topic.