RUN THE NUMBERS

Three out of five homeowners buy the pitch

BY DAVID MENZIES

Canada's Big Five banks love peddling mortgage insurance – policies that cover the outstanding mortgage on a house in case of the breadwinner's death or disability. And three out of five mortgage holders buy the pitch, purchasing the policies often without asking a single question.

In some cases, banks will automatically include the cost of mortgage insurance in the monthly mortgage payments. Customers who reject the option are often obliged to sign a document acknowledging that choice, implying such a refusal is an inherently foolish act.

But is mortgage insurance really such a good idea? According to several observers, the answer is a resounding no.

"Forget a 10-foot pole – I wouldn't touch [mortgage insurance] with a 20-foot pole," says Burlington, Ont., mortgage consultant Ron Cirotto. For starters, he says, it's simply not a good deal for the money.

"You have to go through the numbers and do a cash-flow analysis," says Mr. Cirotto. Take a $150,000 mortgage that requires a monthly mortgage insurance payment of $67. "The true cost of the yearly insurance is not 12 times **$67.** The true cost is what that $67 would yield if you stuck it into your mortgage [to reduce the principle]. That $67 a month added to the monthly payment will make a hell of a difference in paying off the mortgage quicker."

Mr. Cirotto says as important is the fact that the same insurance premium applies for the duration of a mortgage – even if you're your 24th year of a 25-year term and the outstanding mortgage that you'd get in a payout is miniscule. "That's robbery," he says.

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Banks argue mortgage insurance has a few things going for it: It's convenient and easy to obtain.

Indeed, Mr. Cirotto calculates that a $150,000 mortgage at ***5%*** interest for 25 years costing $872 a month would result in total interest payment of $111,722. But if the $67 mortgage insurance premiums were tacked onto the monthly mortgage, that debt would be paid off within 21 years and eight months, with the interest topping out at $95,324. "So you'd knock $16,000 off your mortgage and have it paid off more than three years earlier," Mr. Cirotto says.

Mr. Cirotto used to have mortgage insurance, paying about ***$50*** a month, "but I got rid of it real quick after I did the numbers. What pissed me off was the fact ... that I had to pay a constant amount in insurance for a mortgage that diminished with time."

Make no mistake: having **sufficient** insurance to ward off financial disaster is always a good idea. But there's a far better alternative to mortgage insurance: old-fashioned life insurance.

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Dave O'Laughlin, a financial planner with Investors Group, says that, first and foremost, life insurance offers flexibility. When a homeowner signs up for mortgage insurance, the beneficiary is always the bank that holds the mortgage. That means if the policy holder dies, the bank gets paid while the surviving family members receive a mortgage-free house. But with a life insurance policy, anyone can be designated the beneficiary. And that beneficiary can choose to invest the money, for example, rather than paying off the mortgage.

Not surprisingly, banks see things a little differently. Nader Gorgi, vice-president of credit protection at TD Canada Trust, points out that mortgage insurance is convenient. In most cases a consumer can obtain coverage by checking off a four-question checklist.

"The application is simple,'' he says. "There are no [bodily] fluids required, whereas with term insurance you have to go through a more thorough application process – the nurse will come to **see you."**

As well, Mr. Gorgi notes, a mortgage insurance premium is constant. "The point [life insurance companies] don't make is that you are taking a 10-year or 15-year policy and the renewal rate is always higher: he says, because the person is older and **thus** a bigger risk.

Mr. Gorgi also notes that there are many conditions and exclusions in life insurance policies. "We don't ask if you're a smoker or a non-smoker. We ***go*** by one rate," he says.

Mr. O'Laughlin, however, points our that banks sometimes ask for this medical information only ***after*** the fact. The result, he says, is that in certain cases people "think they have life insurance but they don't." There have been instances, he says, where the bank refused to pay out on mortgage insurance because the policy holder was afflicted with a medical condition prior to the insurance taking effect. (Mr. Gorgi says such cases are very rare.)

If you're sold on the merits of mortgage insurance, be aware at least that you don't have to buy it from the bank issuing the mortgage. For example, the person paying $67 a month at TD Canada Trust could get the same policy from Clarica for only $48 a month. What's more, the Clarica policy offers the same level of payout for the entire life of the mortgage. In other words, if the policy holder was into year 24 of a 25-year mortgage when he passed away, Clarica would pay out the entire $150,000, as opposed to whatever was left on the mortgage.

Mr. Cirotto says the financial industry "is notorious for playing upon people's fears. When people are frightened, they don't tend to be logical. And when you make emotional decisions, you can be fooled easily."

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