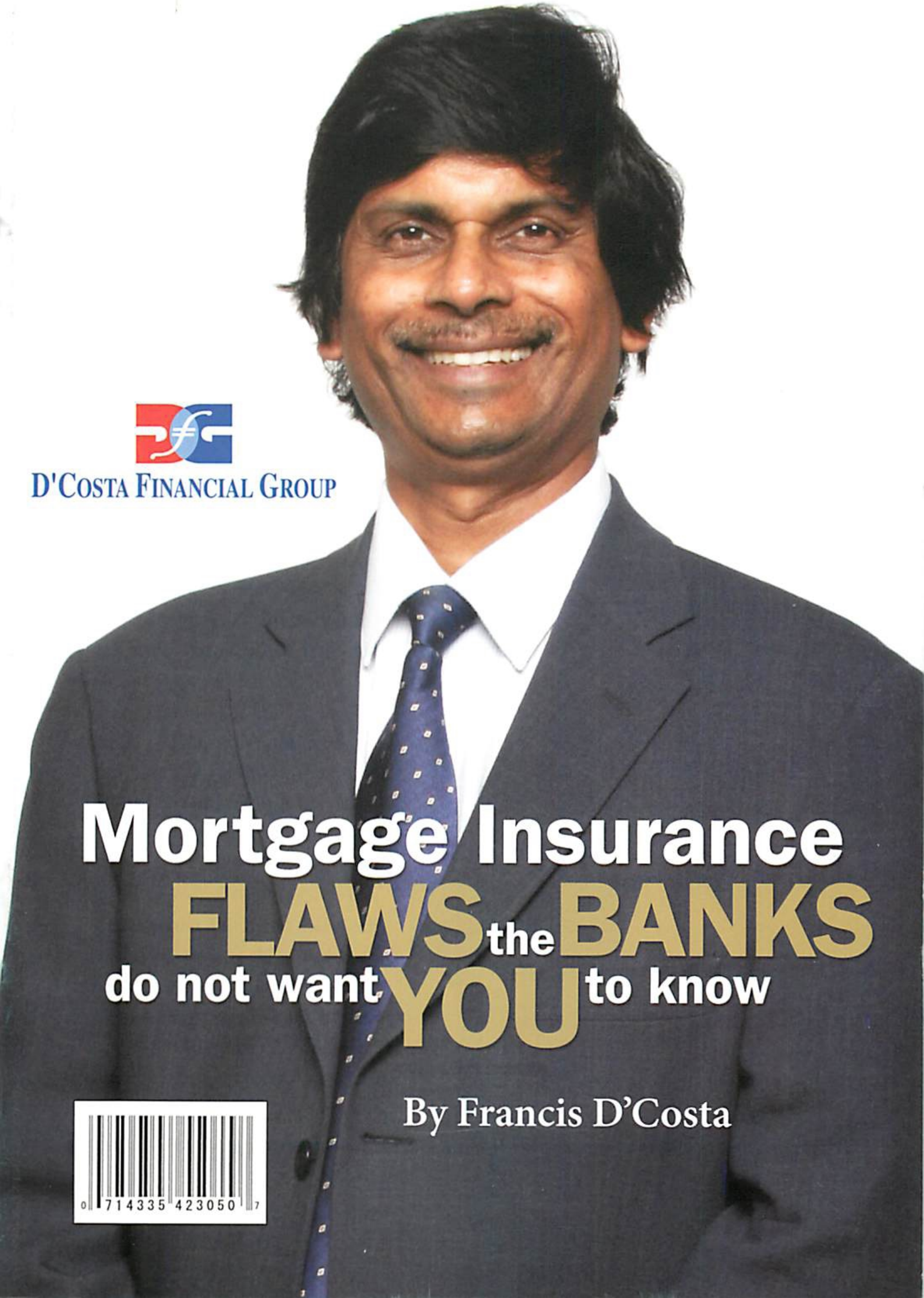
MORTGAGE INSURANCE



D'COSTA FINANCIAL GROUP

Mortgage Insurance FLAWS the BANKS do not want YOU to know

By Francis D'Costa

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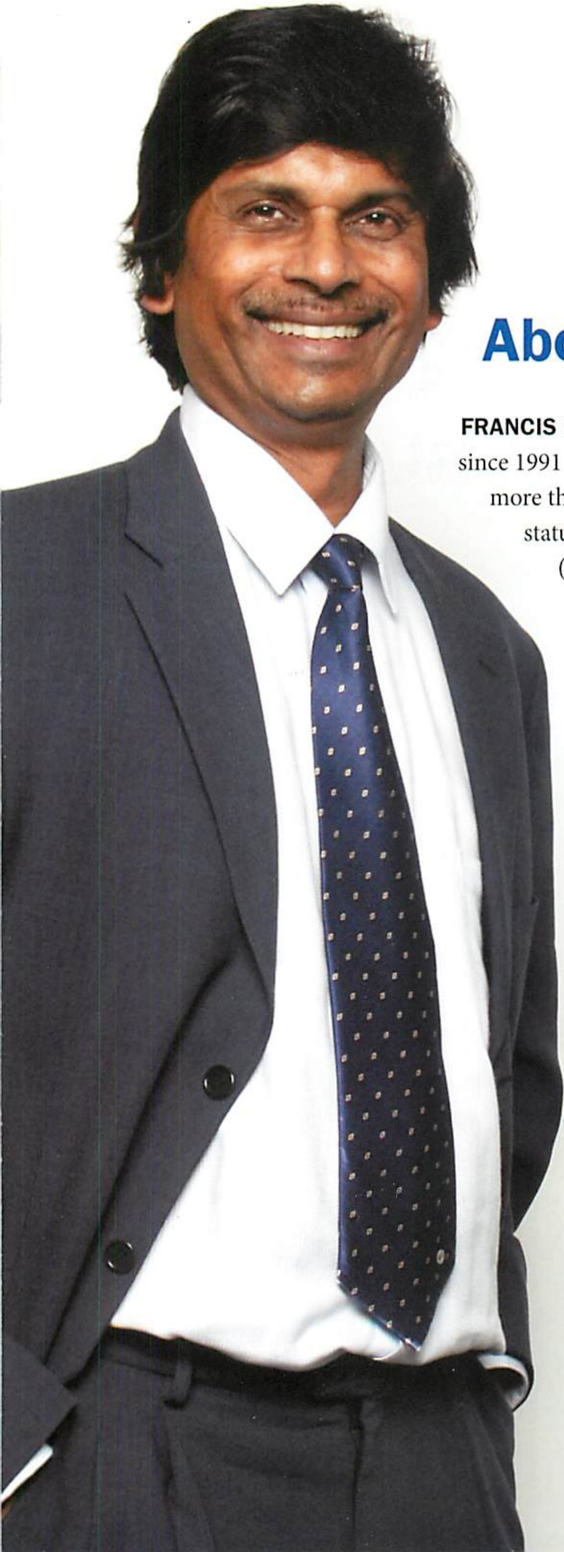


About the Author

FRANCIS D'COSTA HAS BEEN in the business since 1991 and having qualified as a member for more than 11 years has earned Life Member status for the Million Dollar Round Table (MDRT), a membership enjoyed by approximately 1% of life insurance agents around the world.

The Million Dollar Round Table is a premium association of Financial Professionals in the world. Francis D'Costa is also 6 times Qualifier of the Court of the Table, a distinction held by approximately 10% of MDRT members.

Currently Francis has qualified for the Top of the Table (second year running) within the MDRT, an eminently elite group of only around 1,000 agents worldwide.

Francis D'Costa also holds the office of MDRT Chairman for Ontario. He is known for his leadership qualities and is invited to speak to fellow insurance agents by large insurance companies like State Farm as well as Managing General Agencies.

A Clearer Understanding of

Mortgage Insurance

ONE OF THE MOST baffling topics to understand in finance is the buying of life insurance. It's not the actual buying of insurance that causes fear; rather it is the fact that the topic of insurance relates to death or dying, and that is something most individuals tend to shy away from.

I have even known some people categorically say that if they purchase life insurance they feel that they are inviting death. Apart from that, the discussion of life insurance is not an interesting conversation piece. So, people tend to run away from or avoid the individual who wishes to discuss the importance of life insurance or tries to sell it. He is invariably kept at a distance. Regardless of whether he is a friend or family member—it's not the individual—it's the risk element which makes people wary.

Personally, I take pride in my chosen career and am the first to acknowledge the downside of this profession and how people go out of their way to avoid the topic of insurance. Allow me to let you into a secret. If I don't wish to talk to certain people at a party, I tell them I'm an insurance agent and you can bet your last dollar that I will never see them again. Interesting, isn't it? A foregone conclusion!

If I don't wish to talk to certain people at a party, I tell them I'm an insurance agent.

Basically, insurance is like gambling. The insured bets that he will die and the insurer bets otherwise. There are 2 basic types of life insurance. One is term and the other permanent.

If you are buying a house you know that there will be numerous nerve wracking decisions to be made. One of the tougher ones after you have decided on the house of your choice is the matter of insurance.

The lawyer informs you that without an insurance policy he cannot give you the house keys. And, then you frantically start calling all around —your associates, friends and family members looking for a plan. What most people don't realize is that you are doing all this to protect the financial institution which has loaned you this money to make your dream purchase. Not bad, no problem! And why not? If this institution is helping you with the money, the very least you can do is to make sure to protect their loss in case of some calamity.

By the way, the insurance I am referring to is home insurance. Home insurance against fire is mandatory. Obviously, if a fire guts your house and you do not have insurance, you may not have the money to repay the loan. Now it would be unfair to ditch someone who lent you a helping hand to purchase a home and so you purchase a protection plan in the event of this catastrophe…also, because you have no choice…or else you do not get the keys! Excellent idea, everyone is happy. I wish it were the same with the next policy I am going to discuss.

One of the tougher decisions after you have chosen your house is the matter of insurance.

Statistics tell us that 8 homes out of 1,000 dwellings in Canada will suffer loss through fire in any given year. If I've done my math right, the odds are less than 1 per cent. Not a good bet. Even the Cancer or Heart and Stroke Lotteries offer 33 per cent odds!

So, on to Mortgage Insurance! Did I say mortgage insurance? Ah yes! Yes, it's a unique name given to normal, ordinary life insurance, couched under a very nice sounding name - which makes a whole lot of difference to people wary of "life insurance." So, they're not buying life insurance—no, no, they're buying mortgage insurance. I wish there were many more such unique names for the good old life insurance which would persuade people to buy life insurance and protect their loved ones and their estates.

Apparently, people do not want to talk about death; so life insurance is the last topic for discussion unless you get a close call from the Creator, by way of a heart attack or stroke.

Mortgage insurance is not mandatory; all you have to do is sign a waiver and you're off to the races. The waiver releases the lending institution of its obligations to offer you a plan that would take care of your family in the event you had a premature death.

Let's get back to the statistics. Out of 1,000 people aged 30, 125 will die prior to the conclusion of a 25 year mortgage.

And surprisingly, despite having this fantastic name to this very important plan there are thousands of families lacking protection and leaving their dependant families open to the risk of losing their homes. I am certainly glad that due to the plans aggressively marketed by the banks, many families are protected. Or else, there would be thousands of unprotected families who would end up homeless.

Mortgage insurance is simply normal, ordinary life insurance, couched under a very nice sounding name.

Generally, most of the plans marketed by the banks cover the mortgage balance. So let's focus on that aspect. Let's say you had a mortgage balance of $200,000; you will obviously purchase $200,000 of mortgage insurance protection. That's great and the concept works well. Now let me ask you how much would a $200,000 mortgage cost you—is it $200,000? Not really. Except if you paid it in cash, after tax dollars. Therefore, to pay a $200,000 mortgage over 20 years, it would cost you with interest over $350,000 @ 7.00% interest. That's not the end. In order to pay off $350,000 after taxes @ a 30% tax rate, you would have to earn over $525,000.

Most mortgage insurance plans do not effectively cover your financial burden.

Now, I have put in all these figures to bring you to your senses—so you will realize that when you purchase a $200,000 mortgage insurance policy, you are effectively reducing a huge financial burden of $525,000 for your spouse and family.

Let me give you another thing to think about. Remember, for most people to qualify for a mortgage, it usually requires two incomes—i.e. your spouse's income and yours. Together they help you qualify for the loan. What would be your bank officer's reaction to lending this same amount after the death of one spouse? Certainly not good! Most likely he/she would decline the application.

If a mortgage is not paid immediately, in the event of your death, it will become a huge liability to the family.

CHOICES

Let's visit the choices your family would have to make in such a situation.

1. Will the surviving spouse/partner carry on the entire burden of the mortgage and will the bank accept the risk? If two incomes together found it difficult to make both ends meet, how can one income possibly be adequate?
2. The family could sell the house, relocate or rent somewhere else. Will there be a buyer for the house? What about the cost involved in selling the house? Will there be enough money after selling or will the family owe the bank?
3. Sell the house and move in with the relatives. Not the best alternative and how many people have philanthropic, generous relatives willing to take in another family? Not many, I can bet.
4. It's an accepted fact that for most people their house is their most valuable asset and they protect it by way of mortgage insurance.

By the way, I'm sure you have heard this statement from a friend saying that someone they knew had died and that the surviving family does not have any money. You can immediately conclude that those folks did not have insurance and must have probably snubbed many insurance advisors like me. If one truly loves his or her family, a mere $15.00 a month can prevent such an eventuality.

There are various types of insurance plans you could purchase to protect your family, such as:

1. A plan that would pay off your mortgage in case of death.
2. A policy that would refund all your insurance premiums when the mortgage is paid off or even earlier.
3. Some plans that would make your mortgage payments should you have the misfortune to be disabled.

Why not make an informed choice rather than have one shoved down your throat with a package deal and no flexibility?

4. Better yet, there are some plans that would refund most of your premiums if you do not claim the disability benefit, and this can help pay towards dropping your mortgage payments.
5. Other plans would pay off the mortgage in case of a drastic or critical illness.
6. Some plans would refund most of your premiums if you remain healthy and do not make a critical illness claim. Again, this will help towards paying off your mortgage.

These plans could be arranged by a professional Insurance Advisor, and most of all you can make an informed choice rather than have one shoved down your throat with a package deal and no flexibility whatsoever.

Why take advice from a bank official, whose expertise is not insurance?

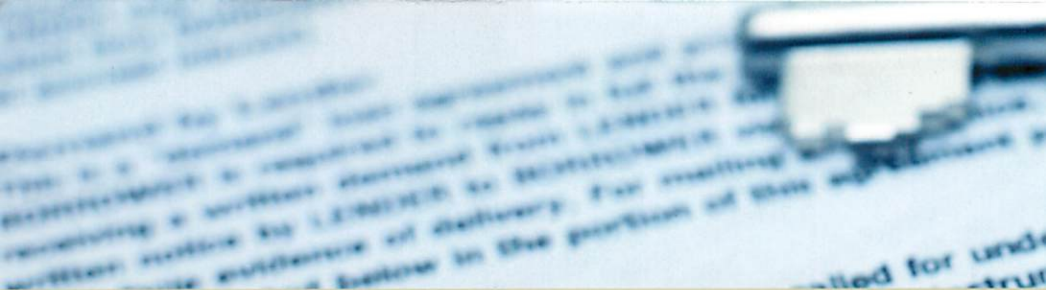
Before we discuss the nitty-gritty of the plans marketed by the banks and other lending institutions, let's get one thing straight.

Would you go to your dentist if you are ill? Or your family doctor? True, both are doctors, but their lines of specialty are totally different. Why, then, would a person take advice from a bank official (whose expertise is banking and NOT insurance) to purchase protection of his/her most valuable asset?

Don't get me wrong—bank officers may be extremely knowledgeable in the financial aspects of banking related issues, but insurance issues are far beyond their scope. They are only doing their duty by offering the mortgage plans available.

Therefore, getting advice and signing an extremely important document which can affect your entire family's financial future is something you have to take really seriously.

An Insurance Advisor, on the other hand, is qualified to give you better advice on insurance related issues.



Mortgage Insurance

• **Plans offered by an Insurance Advisor provide coverage that remains level for the term you select.**

Mortgage insurance plans offered by banks relate to your mortgage balance, and obviously as your mortgage drops so does your insurance coverage. In this case, if you are happy about reducing your mortgage, remember that the insurance company is equally happy because this reduces their liability.

• **Individually acquired plans are tailor made for you personally and so, if you are healthy, you get a better rate.**

Unfortunately, the plans that banks recommend are group plans. It does not matter how healthy you may be compared to others in the group.

• **Plans we offer have premiums guaranteed and cannot be changed by the insurer.**

As you might be aware, group plan premiums are generally not guaranteed. Mortgage insurance plans are group plans.

• **Individual plans do not reduce their benefits and so the premium remains the same.**

Mortgage insurance plans offered by banks relate to your mortgage balance, and as your mortgage drops so does your insurance coverage, as mentioned previously. However, the premiums that the bank charges you remain the same. Does that seem fair?

Most bank plans leave the insurance carrier with loopholes to decline your claim.

• **Individual plans will require complete medical check-ups done by qualified medical professionals, at the time of application, which will save your beneficiaries from problems later. It also protects your interests and the interests of your beneficiaries at a later date. Qualified Insurance Advisors will coach you on most medical questions so that your answers are accurate and appropriate.**

Most bank plans can be set up with a few condensed medical questions —which leaves your bank's insurance carrier with loopholes to decline your claim.

Flaws...

• **Our plans do not require you to pay additional PST. The premium offered is the final figure, no PST surprise.**

Premiums quoted by group insurance plans do not include Provincial Sales Tax. Therefore, just like the rest of your regular purchases PST sneaks in silently to add to your total. So, when you shop for a price, please take this into consideration. A PST of 8% could buy you a lot of additional insurance coverage OR reduce your cost significantly.

With our plans, the premium offered is the final figure—no PST surprise.

• **The plans offered by an Insurance Advisor insure both spouses separately, and so, insurance is paid on both deaths; for instance in a disaster where both the insured die, two separate death claims in the same amount will be paid, thus doubling the benefit.**

Bank mortgage plans are "first to die" plans – i.e. the plans pay and cease when one person of the two insured dies. Obviously you would agree that that's the purpose of this insurance. Sure. However, wouldn't you prefer a better option?

For example: a 45 year old male and a 42 year old female insured for a mortgage of $250,000 "first to die" would pay $49.50 per month. By insuring them separately for two amounts, the cost would be about $51.33 per month. Wouldn't you agree that it's worth an additional $1.83 per month to double the coverage, so that the beneficiaries receive $500,000? That's the advice you will receive from a qualified insurance professional.

• **The plans an Insurance Advisor offers can generally be converted to a permanent plan, without the necessity for further medical evidence. So, if you develop a medical condition which would disqualify you for insurance, this feature would be of great importance in the continuation of your insurance policy, thus protecting your family.**

Bank mortgage plans are strictly rental (term) plans and that's about it. You do not have a choice.

• **Our plans are traditional life insurance policies, the proceeds of which go to a named beneficiary tax free. The insurance policies are creditor proof, thus totally negating undue expenses such as probate fees.**

When insurance proceeds from a bank plan are paid towards a property, those proceeds may be open to probate or creditors.

• **With traditional life insurance plans, the choice of coverage amount is always yours and does not require mortgage documentations.**

Again, as the coverage of bank plans relates to your mortgage balance, you do not have a choice. For instance, if you wanted an extra amount of coverage to protect your family, you would need to purchase it from elsewhere and unnecessarily end up paying an additional amount of money by way of policy fees.

• **With the plans an Insurance Advisor offers, the choice of using the benefit amount anyway you choose is YOURS, and you can make any changes as and when you need. For instance, when you die, your spouse has the option of whether he/she wishes to pay off the mortgage in its entirety or not, as per the spouse's needs at that time.**

With a bank policy the bank is the beneficiary; your family has no choice.

Unlike traditional life insurance, proceeds from a bank plan may be open to probate or creditors.

• Our plans are portable. They are not tied to any property. They are based on your life—not your house or any other asset.

When you purchase a mortgage insurance plan from a bank, you are confining the coverage to a particular property; hence, moving to another property requires another contract.

• Refinancing does not affect the insurance plans that an Insurance Advisor will offer.

Refinancing alters your mortgage balance and so the contract of a bank plan stands void. There will be a rate increase in line with your current age, with additional underwriting.

• We offer you choices of coverage ranging from 3 to 22 critical illnesses with the flexibility of purchasing the amount of coverage that you can afford. Also, you can claim two benefits separately—i.e. if the insured gets a critical illness and claims, then dies after the claim is paid, the death benefit also gets paid.

Some institutions generally add the critical illness benefit to your life insurance coverage, giving you no choice with regard to the amount you may wish to purchase according to what you can afford. It also does not allow you to claim two benefits – i.e. if you collect a claim on a heart attack which is a critical illness benefit and you survive, then the contract ends. Also, the number of critical illnesses covered is limited.

Since our plans are not tied to any property, they are portable and are not affected by refinancing.

• A qualified Insurance Advisor can draw out a plan which allows you the option to stop paying premiums and still continue your policy.

Bank mortgage insurance plans are term products, which have no cash values, and so, if you stop payments, the policy will immediately lapse.

• Most insurance agents will service you effectively and most of all take care of a claim, personally assisting your family when in dire need. Most Insurance Advisors' actions will definitely speak better than bank TV commercials. They will assist you in the creation of an estate and certainly will meet you one-on-one and at your choice of venue or at your home. Basically you have hired the services of a professional in this line for the rest of the term of the plan you have purchased.

Can you recall any bank making personal contact with you such as sending you a birthday card, a calendar, newsletters, or even making a courtesy call, etc.? The only time you would hear from them is possibly at the time of renewal, which would mean an additional sale for them.

It's worth noting that traditional life insurance policies from an Insurance Advisor offer a discount of approximately 9 per cent if the premium is paid annually, thus reducing the cost significantly. This discount factor does not arise with a bank's mortgage insurance plans, which are generally paid on a monthly or biweekly basis.

Most insurance agents will take care of a claim, personally assisting your family when in dire need.

Why buy longer term mortgage protection?

Statistically an average mortgage lasts over 21 years. So, if you buy a plan with a lower term you will have to renew the plan for another term at a higher premium. Obviously, the older you are, the higher the premium as the risk factor is greater.

Buying longer term allows you to cancel the plan if you wish to, in the event that mortgage commitments are cleared, or you have the option to continue the plan until it expires.

The choice is yours.

EXAMPLE:

Following are various term plans available to a 40 year old male non-smoker for a $250,000 mortgage protection life insurance policy, on a monthly premium basis:

Ages	10 year	20 year	25 year
40-49	24.53	37.80	65.93
50-59	130.95	37.80	65.93
60-64	305.78	517.95	65.93
Total **Premium Paid:**	**37,004**	**40,149**	**19,779**

HUGE SAVINGS

In the above example, a 25 year level term saves the client $20,370 over a 20 year term and $17,225 over a 10 year term.

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Qualifying & Life Member

MDRT

The Premier Association of Financial Professionals®

Introducing an innovative new insurance plan that makes your money work twice as hard

Ideal for business owners, investors and high net worth individuals

NOW you can purchase valuable permanent insurance protection and obtain the benefit of tax-deferral inside the insurance policy while re-investing the capital in the policy back into your business or another investment eligible for an interest deduction.

What makes this insurance strategy different?

This plan is designed to give you the insurance protection you need without sacrificing liquidity. It has three valuable advantages:

- It can make your policy tax deductible
- It allows you to take a loan from your policy within 14 business days
- You can invest the withdrawals back into your business thus making your money work twice

Who is the plan for?

The plan is ideal for:

- High-net-worth individuals
- Those looking for low-cost after-tax permanent insurance
- Business owners or individuals with substantial taxable income and liquid assets
- Those with good cash flow but require liquidity for outside investment (holding retained earnings)
- Those in need of permanent insurance for personal or business reasons
- Those who anticipate a high return on a personal or business investment

Plan Highlights

- Cost of the policy is cheaper than a 10 year term insurance initial cost *(refer to case study below)*
- Living benefits included at no extra cost
- This strategy effectively gets you a **guaranteed 8% return** in the policy

Case Study

The net outlay for a 50 year male non smoker, for a $500,000 permanent insurance coverage after premium deposits and withdrawals over a six-year period is less than $5,000. In comparison, he would pay $970 per year for a 10 year term plan; i.e. in 10 years, he would have paid $9,700 and the premium would increase substantially from the 11th year onwards.

Want to learn more?

For a no-obligation appointment to learn how you could benefit from this plan, call Francis D'Costa at **905-471-0572** or send an email to **francis@dfglife.com** today.

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