

Mortgage Protection Life Insurance

Anyone taking on the debt of a mortgage and who has family or other responsibilities, for which the provision of a home is vital, should set up some mortgage protection life insurance.

This briefing note discusses the basic perils faced by people with a mortgage and how they can be insured for. It does not discuss specific plan providers or plan costs. Also as people's circumstances differ, all cases should be considered individually. A separate WfW Briefing Note discusses relevant state benefits.

Background

When you take out a mortgage you make a contract to pay the lender a regular and often variable sum on time until the maturity date. Failure to do this can result in repossession. In our experience no lender has a relaxed view regarding arrears, whether this is one month or six months. You owe them money and they want it back. Even if the circumstances that have caused the arrears are beyond your control (for instance ill health or unexpected unemployment) it will make no difference.

The State has reduced its support for mortgage payments. Benefits are far less generous and more strictly means tested. The benefits available are designed to pay only the interest. They will not repay the capital element or support endowment or life insurance policy premiums.

Lenders are therefore keen to limit their potential loss and potential bad press and encourage you to take out suitable insurance.

So do we.

Basic Risks

What we are really considering is the loss of income to service the mortgage. For an individual or family this can occur for the following main reasons.

1. Death of the main earner
2. Onset of a Critical Illness
3. Temporary or Permanent Disablement
4. Unemployment

The occurrence of any of these to any or either of the parties to the mortgage will result in severe financial strain. This is particularly true for families where spouses and children rely on the income. Single people are also vulnerable, as the onset of a critical illness and the inability to earn a living could leave them homeless at a very vulnerable time.

Insurers have recognised this need and have developed plans and policies designed to cover these perils. There are now a very large number of plans on the market. Not all of them are of good quality.

Description of Covers

1. Death

This speaks for itself. If one of the insured persons die, the policy pays out.

2. Critical Illness

Most of the good quality plans define this as the diagnoses of the onset of one of a range of defined critical illnesses like heart attack, cancer, stroke or coronary heart disease.

In the case of this type of cover it is vitally important that the definitions are clear, comprehensive and unambiguous. We check these against minimum standards set originally by one of our professional organisations. A successful claim will result in the payment of a lump sum benefit usually designed to be sufficient to redeem the mortgage.

3. Temporary and Permanent Disablement

In the event of incapacity due to illness (which need not be 'critical'), or accident that prevents the insured earning a living the plan pays a regular benefit. There are two main types. Type one pays the benefit for a defined period of, usually, up to two years. Type two pays the benefit until you recover, the mortgage ends, or you retire or die. Type one, the defined term plans, are usually set up under simple accident sickness and unemployment policies (ASU). These are effectively underwritten at claim. Type two, the full benefit plans, are true income replacement insurance (IRI) policies that are underwritten at application on the circumstances of the insured. Of the two types we far prefer the true income replacement insurance type, as although they are more complicated to set up and are generally dearer the chances of a successful claim are in our opinion higher and the cover is more appropriate and of infinitely better quality.

4. Unemployment Insurance

This benefit pays out if the insured becomes involuntarily unemployed. The benefit payment period is usually limited to twelve or twenty four months. It is not cheap although cover is important. It is not available to the self-employed.

5. General Observations

Mortgage debt and family responsibilities usually coincide with maximum calls on income and peak effort at work. Any extra expense that can be saved is usually very welcome. However, although the likelihood of one of the above troubles occurring to you is relatively small, the consequences if they do, both financially and emotionally, can be very dramatic. We consider mortgage protection insurance vital for all mortgage borrowers.

It is also absolutely vital that the correct policy with appropriate terms and conditions is selected. There are a lot of poor quality schemes on the market that are also expensive.

6. Our Service

Ensuring that you have the most appropriate mortgage protection cover at the best price is our job.

We have invested heavily into computer and database systems that allow us to quickly and accurately compare the contract terms and price of all the plans on the market including those supplied by all the major high street mortgage lenders. This is particularly important in respect of critical illness and disability definitions. It ensures that you are comparing like for like. Even if you do not think the best quality contract is appropriate for you or within your budget at least you have been offered the choice. However we usually find that the best quality contract is also to best value.

For any particular case we expect to spend about 80% of the time analysing your situation and advising you on the most appropriate cover and selecting the best policy for your purposes. The other 20% is spent on the administration of setting up the policy, that is completing the application form and pursuing the policy through underwriting. For clients with health issues this second element can take longer.

The foregoing is Williams Farrall Woodward's current understanding of these products. Clients are reminded that they must take professional advice before acting on the information given. We cannot be held responsible for actions you may take as a result of the information contained in this briefing note. E & O excepted.