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Mortgage insurance

'Mortgage insurance' can mean 2 things.

1. Most commonly, it refers to the insurance that protects your lender should you not make your payments.
2. It can also mean insurance that protects your family if you die or suffer a critical illness before paying off your mortgage in full.

1. Insurance that protects your lender should you not make your payments

For any mortgage with a down payment smaller than 20% of the purchase price, the government agencies that oversee Canadian lenders require them to have mortgage insurance.

- This insurance does not protect the mortgage borrower (home buyer).
- It protects the lender in case the borrower fails to make mortgage payments.
- But the borrower pays the cost of this insurance (insurance premium).

Here's how it works:

- The cost of mortgage insurance is usually added to the mortgage's principal. The borrower pays for it over time as part of their regular mortgage payment. But the GST / HST on the cost of insurance has to be paid up front.
- The mortgage lender will then pay the mortgage insurance premium on behalf of the borrower to the insurer.

How much does mortgage insurance cost? It usually amounts to 3-4% of your entire mortgage.

There are 3 mortgage insurers in Canada: CMHC (Canada Mortgage and Housing Corporation), Genworth, and Canada Guarantee. CMHC is a federal government agency. The other two are private companies.

All 3 charge the same rates.

If your down payment is this percentage of your home price:	Mortgage insurance will be this percentage of your mortgage amount:
5% to 9.99%	**4.00%**
10% to 14.99%	**3.10%**
15% to 19.99%	**2.80%**

Source: www.cmhc-schl.gc.ca. As of December 2020.

In some cases, lender may require mortgage insurance even if the down payment is 20% or more. It may be required when:

- The location or size of the property creates some additional risks.
- You requested amortization of your mortgage longer than the standard (currently 25 years).

The cost of insurance with down payment bigger than 20% ranges from 2.40% (if your down payment is 20-25%) to 0.60% (if your down payment is greater than 35%).

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2. Insurance that protects you

Mortgage insurance we described above is really 'mortgage default insurance' – it insures the lender against your non-payment (called 'default').

Creditor insurance, as well as life / critical illness / disability insurance, is meant to protect you and your family / dependents. This can be helpful if you have a mortgage (and / or other debts) and a family that depends on you financially.

Creditor insurance

It's commonly sold by lenders (the insurers is a company owned by or associated with the lender. You'll pay regular premiums and, in exchange, creditor insurance will help cover your unpaid debt balances (on a mortgage, car and other loans, and even credit cards) in case of death, disability, critical illness or job loss.

- Premiums (the price you pay for insurance) will be based on the amount you owe and your age.
- Unlike with life / health insurance, you most likely won't have to go through a medical exam.
- Should you die / get sick / lose your job, the insurance payments would go to your lender.
- If none of the unfortunate events you insured against happens before you repay the loan, your insurance coverage expires.

This insurance may have limitations, so it's important to read the terms and conditions carefully. For example,

- It may not cover the full amount of your loan payment.
- In case of job loss, it may be tied to the terms of your Employment Insurance.
- If you buy it from your mortgage lender, it will not 'follow you' when you buy another house or change lenders when you renew your mortgage at the end of term. This means that you'd have to buy insurance again.

Life / disability / critical illness insurance

You buy these kinds of insurance separately from your mortgage / other loans, and directly from an insurance company or through an insurance broker. The amount of money insurance would pay out (coverage for which you're insuring) depends on the amount of premium you decide to pay (as well as on the maximum the insurance company is prepared to insure you for).

- Should you die, insurance proceeds will be available to your beneficiaries (people you designate in the contract), like your family. They will be able to use the money for whatever needs, including mortgage / other debt payments.
- If none of the unfortunate events you insured against happens before you repay the loan, your insurance coverage continues as specified in the contract.

There's a lot to unpack here. Make sure to read the insurance content on FinStart.