Why You Should Have a Mortgage Insurance

By **PEARL LIM**

A mortgage insurance ensures that in the event of the death or the permanent incapacity[commonly known as total and permanent disability (TPD) in the policy] of the loan taker, the outstanding Singapore home loan can still be paid off with the assured sum. For Housing Development Board (HDB) flats, it is mandatory to have a mortgage insurance if you are making your monthly loan installment with your Central Provident Fund (CPF) balances. You can either take the Home Protection Scheme (HPS) which is administered by CPF or eligible type of insurance policies by private insurers. These type of policies are

- Whole Life
- Term Life
- Endowments
- Life Riders (must be attached to a basic policy)
- Mortgage Reducing Term Assurance (MRTA) / Decreasing Term Rider

Source: CPF Ask Us, “What types of insurance policies can be used for Home Protection Scheme (HPS) exemption?”

The below table highlights the differences between HPS and a private insurance.

Table 1: Comparison of HPS and Private Mortgage Insurance

Home Protection Scheme (HPS)*	Private Mortgage Insurance
1. Premium can be paid using the CPF balances in ordinary account	1. Premium cannot be paid using the CPF balances in ordinary account
2. Added insurance coverage / riders are not allowed	2. Added insurance coverage / riders are allowed
3. The insured sum of money is given directly to HDB or the bank to pay off the outstanding mortgage	3. The insured sum of money is given to the beneficiary to pay off the mortgage or utilise for other purposes
4. Non-transferable. • The policy will be terminated if you sell the house or redeem the loan earlier. Thus, you may have to incur a higher premium, if there is an increase in age or medical conditions, when you buy a new policy. • If you refinance/reprice and there are changes to the loan tenure and/or amount, your current policy will also be terminated and you will issued with a new one.	4. Usually the remaining insurance coverage can be transferred to the new mortgage loan if you refinance/reprice or dispose of your current flat and buy a new one
5. No refund of premium or cash value (surrender value) at any time	5. Some insurers, from time to time, may introduce policies that refund the premium for early termination, or at the end of the term of the policy if no claims are made

6. Annual payment	6. Flexible payment mode: i. Regular premium: monthly, quarterly, half-yearly or yearly payment ii. single premium: one-time lump sum payment (a portion maybe refundable upon early termination)
7. Single coverage only	7. Single, joint or dual coverage available
8. Premium is payable for 90% of the coverage period	8. For regular premium, premium is payable for 75% to 90% of the coverage period
9. Coverage up to 65 years old	9. Total and permanent disability coverage usually up to age 65. But death coverage can be beyond that

*Information is correct at time of publishing. If in doubt, please contact HDB.

As Table 1 shows there are advantages with using a private mortgage insurance. You may like to contact the consultants at iCompareLoan.com for a free detailed discussion.

In Singapore, a mortgage insurance is also commonly known as a Mortgage Reduced Term Assurance (MRTA). This is because the coverage / assured sum falls as the housing loan gets paid off.

For private properties, you can only use a private mortgage insurance and it is optional to have one. Consequently, some owners may choose not to have it. However, the below outlines some reasons for buying one.

Property sales

If you believe literally that your house is a goldmine, and that you or your family can always sell it to settle the outstanding mortgage, think again.

Properties are non-liquid assets. The sales process usually involves a lengthy period of time. It takes time to find a willing buyer and after that there are paperwork required to see the sales through. Finally, you have to wait a while to receive the sales proceeds. Several months will have passed by then. Unless there are savings to fall back on, you or your family may not be able to meet the monthly mortgage repayment.

And this is only the best scenario.

It could be that the property market is in a slump, and your house had fallen into negative equity (ie. market price is below the outstanding loan amount). Selling your house would not only be unable to settle the mortgage but you (or your loved ones) would also be left homeless.

Therefore, having a MRTA safeguards against these eventualities from happening.

Lower premium

Life and term insurance come with mortgage protection. However, these policies command a higher premium compared to a MRTA. The premium for the latter is lower because the coverage falls in line with the mortgage.

In addition, for life insurance you have to pay the premium throughout the lives of the policies; whereas for a MRTA usually no premium payments are required towards the last few years of the mortgage tenure. For regular premium, typically you only need to pay premium for 75% to 90% of the mortgage tenure. For single premium, a portion of the premium can be refunded upon early

termination.

Additiona1 insurance coverage at lower cost

Riders or supplementary benefits can be added to a MRTA at lower cost, then if you are to buy a standalone policy. For example, you can buy a rider plan for major illnesses.

Portable coverage

MRTAs are usually portable (as are mortgage insurances that are bundled with life or term insurances). This means if you are to refinance or dispose of your current house and buy a new one, you do not have to buy a new MRTA policy. Do note that if you are to buy a new policy at an older age or when you have a medical condition, you will have to pay a higher premium, or not be able to buy one at all.

Flexible premium payment

For a MRTA, most insurers allow you to select from a range of payment schedule: monthly, quarterly, half-yearly or yearly (regular premium). Or even a one-time lump sum payment (single premium). This flexibility may allow you to better manage your cash flow.

Different type of coverages

Single, joint or dual coverage is available. Joint is not offered by many insurers though.

If the loan is financed by two persons, with joint coverage when either or both parties die, the outstanding mortgage will be taken care of by the insurance and the remaining owner need not pay

for the mortgage.

For dual coverage, it is two individual policies that cover 100% of the mortgage each.

For advice on a new loan, go here.

For refinancing advice, go here.

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About iCompareLoan Mortgage Consultants

iCompareLoan Mortgage Consultants is a research focused independent mortgage broker. We emphasize a consultative approach where we match our client's financial situation with the best fit mortgage loan, not simply a cheap loan.

We also help property buyers in their buying process by helping them avoid pitfalls from unscrupulous property agents. (We are not property agents, therefore there is no conflict of interests.)

We also developed a proprietary home loan reporting tool which provides amongst other things, 23 years SIBOR history as well as 6 years worth of SOR.

Our Services: -

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Why use iCompareLoan Mortgage Consultants?

Our service is free as banks pay us a commission upon loan deals completion. Banks in turn save on staffing cost as we are not on their payroll.

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