

## There's no place like home

**Remember how hard it was to save for a deposit on your first home? It still is. And if you're like most Australians, your mortgage is one of your most important financial responsibilities. So it makes sense to have a back-up plan in case you're unable to make repayments.**

These days many lenders recommend mortgage protection so if something happens to you and you're medically unable to work and make repayments, you won't be forced to forfeit the mortgage.

### Origins of mortgage protection

As the legal cost of foreclosing on a home loan is high, mortgage insurance was created to reduce financial risk to the loan provider when a client could not meet repayments due to death or disability.

Mortgage protection cover is sold by lenders and brokers to complement the loan under a non-advice agreement. Under the Financial Services Reform Act, lenders are not allowed to give personal advice or recommend a specific level of cover.

Financial advisers can also offer Mortgage Protection insurance through a limited range of life companies, however the majority of mortgage protection products are sold through a lender without constructing a full financial analysis and only protecting the newly acquired debt.

### Types of cover

Mortgage protection is usually limited to the principle of the loan when the policy is established. It can be divided into two main types of cover:

Repayment Insurance – protects home loan repayments if the insured is medically unable to work. The maximum benefit varies between life companies, often limited to \$3,000 per month with a 5-year benefit period. With most mortgages on a 30-year term, a 5 year benefit is inadequate.

Mortgage Insurance – a lump sum benefit to pay off the amount of the loan, usually limited to the principle of the loan and not exceeding \$500,000. Benefits are paid on death or terminal illness and there is no indexation or future insurability options.

The premiums for these policies are generally less expensive than regular personal insurance as the risk is substantially lower. This is because many policies do not include any of the extra features and benefits available under regular personal insurance contracts.

### Don't forget to cover yourself too

It is important to remember mortgage protection will not provide you with complete cover in the event of death, traumatic event or disability. Mortgage protection will provide cost effective cover to meet repayments for a limited period, allowing you time to consider your circumstances. In the event of an extended disability, it is not a long-term solution.

To ensure you and your family are adequately protected, we can conduct an insurance needs analysis taking into account your debt.