DBL asset management

Your quick guide to Mortgage Protection

"For most homeowners, being unable to make monthly mortgage payments and ultimately losing the roof over their head is their biggest fear. Here, we guide you through the key facts you need to know about Mortgage Protection, helping you to understand the options available to you."

What is Mortgage Protection?

Mortgage Protection is a term used to describe a range of different policies designed to protect you and your family in the event of different scenarios such as unemployment, serious illness or death. Depending on the type of policy or policies you choose, Mortgage Protection gives you the peace of mind that your mortgage payments can continue to be paid or your mortgage balance is repaid partially or fully.

Which policy do I need?

There are a wide range of options available, including life insurance, income protection, critical illness, accident and unemployment cover. Each policy works differently, and covers different life events.

It is important to understand the difference between them as it is unlikely that any one policy will cover all potential scenarios.

Types of policies

Life Insurance

Life insurance is one of the most straightforward and common forms of insurance taken out alongside a mortgage. Paid out in the event of death, it is also referred to as 'term assurance'.

With this type of insurance you choose the amount you want to be insured for and the period for which you want cover. These normally correspond to your mortgage balance and term.

In the event of the policyholder's death, the insurance pays out a lump sum to your beneficiaries. There are two main types of life insurance:

1) Levelterm: the amount you are insured for remains level throughout the term and premiums are normally paid monthly.

2) Decreasing term: ideal for repayment mortgages, the amount you are insured for decreases over the term of the policy. Premiums are usually lower than for levelterm due to the reducing sum assured.

Critical Illness Cover (CIC)

Critical Illness is similar to life cover in that a lump sum is paid, but this is in the event of you being diagnosed with a defined critical illness. These include illnesses like cancer, heart attack, Parkinson's and stroke. A critical illness policy can be used to repay your mortgage or cover adaptations to your home, such as mobility aids or structural changes required due to a disability.

Pre-existing conditions can be excluded or the premium increased due to the higher risk. Critical illness definitions vary between insurers so it is important to take independent financial advice before deciding on a policy. Another consideration is that when protecting a mortgage critical illness cover is normally arranged on a lump sum basis and will not produce a regular income.

If you were unable to work due to a critical illness, whilst the mortgage might be repaid, would additional income be required?

Income Protection

Income protection provides a regular monthly income in the event of you being unable to work through illness or injury. There are a wide range of policy options available, from long-term income protection that pays out until retirement, death or your return to work, to shortterm protection which pays out for a set period, usually between one and five years.

The level of income you can insure is usually based on a percentage of your earnings, typically between 50% and 70%. Premiums depend on a range of factors, including:

- Occupation
- General state of health
- Length of deferral period
- Whether you smoke
- Level of cover you require

Mortgage Payment Protection Insurance (MPPI)*

Typically MPPI policies will cover mortgage payments for up to two years. It pays out a monthly sum that can be used to pay your mortgage premiums if you are unable to work due to accident, sickness or unemployment.

As MPPI only pays out for a limited period on its own, it is unlikely to be adequate for most people's needs. The other important consideration to take into account with MPPI is that because of the way it is underwritten, medical checks are usually done at the point you put a claim in. In contrast, Income Protection is fully medically underwritten when you take out the policy, so you know from the outset what you are and are not covered for.

*This Payment Protection Insurance is optional. There are other providers of Payment Protection Insurance and other products designed to protect you against loss of income. For impartial information about insurance, please visit the website at www.moneymadeclear.org.uk

'The monthly benefit payable under this policy is for duration of less than 12 months.'

14 Kennerley's Lane, Wilmslow, Cheshire, SK9 5EQ
t: 01625 529 499   e: enquiries@dbl-am.com   w: www.dbl-am.com