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# A GUIDE TO MORTGAGE PAYMENT PROTECTION INSURANCE

**PROTECTING YOUR MORTGAGE AGAINST MISFORTUNE**

It has become commonplace for the average homeowner to be obsessed with the value of their property, but the habit often leads to a false sense of security.

Unfortunately, continued ownership in most cases depends on the ability to carry on meeting monthly mortgage payments, which in turn depends on being able to earn an income.

So imagine suddenly being made redundant or being diagnosed with an illness likely to keep you off work for months.

Any savings you have lying around are unlikely to last long because, although it may be possible to cut back on non-essential items, the basic costs of living won't conveniently disappear.

Robbing Peter to pay Paul by taking out further loans to repay existing ones can prove a slippery slope and in some cases may even lead to you having your home repossessed.

### **1. False Sense of Security**

Ironically, at a time when high property values have created a feel-good factor, many new homeowners are more vulnerable to the possibility of losing their income than ever before.

This is because they have committed virtually every last penny to finding a deposit and paying other costs like solicitors' and surveyors' fees.

But the so called State safety net is unlikely to provide as much help as generally imagined. Most homeowners will not receive any State assistance at all because they have either a full-time working partner or savings totaling over £8,000.

Even those eligible for State support will not get any help with capital repayments. They will only receive assistance with interest payments on mortgages of up to £100,000 - and even this will not be available for the first nine months if they have taken out their mortgage since October 1995.

### **2. Mortgage Payment Protection Insurance Can Help**

Nevertheless, if you work in the UK it is possible to take out insurance against being unable to meet your mortgage obligations in the event of losing your income.

Mortgage Payment Protection Insurance can be used to cover your mortgage outgoings if you are unable to work due to illness, injury or involuntary unemployment. In such circumstances it will typically pay out for a maximum of one year.

### **3. Confusing Number Of Titles**

Mortgage Payment Protection Insurance is also often referred to as accident, sickness and unemployment cover or payment protection insurance but these titles can be confusing because they are also used to refer to similar cover that is not specifically attached to a mortgage.

Additional confusion is caused by the fact that Mortgage Payment Protection Insurance is sometimes known as mortgage protection insurance, a title which can also refer to life insurance when it is specifically used to protect a mortgage.

### **4. How It Works**

You choose the level of monthly cover you require. The policy can be used to cover both capital and interest repayments as well other mortgage-related outgoings, such as premiums for endowment policies and household insurance.

You then pay a monthly Mortgage Payment Protection Insurance premium based on the level of cover you have selected. If you are unable to work as a result of illness, injury or involuntary unemployment the policy will pay out the pre-agreed monthly amount for a maximum of one year.

There is, however, normally a waiting period between when the claim is made and when the first payment is received. Typically this is 30 days, but with some policies it is 60 days whilst with others, particularly those from independent providers there is an option to backdate cover to day one.

## 5. The Cost

The better Mortgage Payment Protection Insurance policies offered by specialist intermediaries can cost less than £4 a month per £100 of monthly benefit covered, so for the average mortgage this is likely to amount to no more than the cost of a run-of-the-mill evening out each month. All Mortgage Payment Protection Insurance policyholders pay the same flat rate, regardless of factors such as age, smoking habits and medical history.

## 6. The Main Exclusions

Mortgage Payment Protection Insurance policies will not pay out if :

- It becomes clear that you knew you were about to make a claim when you came on cover
- You leave work voluntarily or as a result of misconduct, fraud or dishonesty
- You have a so-called "chronic" medical condition - a long-term condition from which there is no realistic chance of recovery
- Medical conditions exists prior to coming on cover. These are normally referred to as "pre-existing conditions"
- You have mild stress related and back related conditions

## 7. Those Not In Standard Employment

Temporary, casual and seasonal workers are not eligible but contract workers can be covered if they have at least 12 months continuous service with their employer; so can part-time workers who work 16 or more hours a week.

Mortgage Payment Protection Insurance can cover the self-employed, but it will normally only pay out if they cease trading altogether, as opposed to merely experiencing a quiet period. This can therefore make it of questionable value.

## 8. Buying From The Right Source

Banks and building societies will be only too keen to try to sell you Mortgage Payment Protection Insurance because they will earn lucrative commission from doing so. But be warned that many of them offer cover that is considerably more expensive and of significantly inferior quality to that offered by specialist intermediaries.

You are under no obligation to buy your policy from your mortgage lender, although they are most unlikely to volunteer this fact. Indeed, they will probably automatically include its premium in your mortgage quote, which is a very underhand tactic. It is important to realise that looking elsewhere cannot jeopardise your chances of being granted a mortgage.

If you find that you are simply too busy during the house buying process to look elsewhere then make sure that you do so when things have quietened down, because switching to a Mortgage Payment Protection Insurance policy offered by a specialist intermediary could save you thousands of pounds over the mortgage term

## 9. The Claims Process

Details of the claims process will be outlined in your policy document. You will usually be required to complete a claim form and send it to your insurer. If you have been made redundant you will need to enclose your redundancy notice in support of your claim.

If you are ill or injured the insurer will establish the validity of your claim by writing to your GP. It is also at this stage that it will discover whether the illness you are claiming for is in fact a pre-existing condition.

## 10. Complaints

If you have a complaint, you should raise this in the first instance with the insurer, lender or intermediary who sold you the Mortgage Payment Protection Insurance policy. But if you are not satisfied with its complaints procedure, you may be entitled to refer the matter to the Financial Ombudsman Service - the independent body that resolves disputes between financial organisations and consumers. Using the service will not cost you anything and will not effect your rights to take subsequent action through the courts.

## 11. Does Everyone Need Mortgage Payment Protection Insurance?

If someone has levels of savings that are so substantial that they don't need Mortgage Payment Protection Insurance then it is hard to understand why they need a mortgage in the first place !

Nevertheless, the cover is not necessarily suitable for all homeowners. Some people already have a high degree of protection against sickness and injury through other forms of health insurance such as income protection.

Indeed many people have free income protection cover at work and this may well be sufficient to fund not just their mortgage payments in the event of incapacity but the bulk of the rest of their lifestyle as well.

## 12. Doing Your Homework

So the first step should be to ask your HR department whether you are a member of an income protection scheme and, if you are, ask them the length of the "deferred period" - the time that elapses between when you make a claim and when the monthly benefit payments start being made.

If you learn that the deferred period is six months, which is often the case, then you may well decide that you need Mortgage Payment Protection Insurance to plug the gap.

Ask HR also for details of your company's short term sick pay. If you are with a very generous employer which gives you full pay for the first six months followed by half pay for the next six months then you may feel that you don't need Mortgage Payment Protection Insurance.

You may, however, decide that you still need cover for involuntary unemployment without further health cover. In which case you can take out only this section of the Mortgage Payment Protection Insurance policy and pay a significantly reduced premium.

## 13. Remember The Exclusions

But remember that involuntary unemployment cover doesn't cover voluntary redundancy, so if you work in an industry where this has become the most common method of terminating employment you may decide that Mortgage Payment Protection Insurance doesn't represent good value.

Similarly someone who is self-employed or who has a recurring illness that would be excluded on the grounds of being a pre-existing condition may decide that the limited cover that the product offers them doesn't justify the premiums.

Most homeowners should, however, simply ask themselves whether they can afford to be without Mortgage Payment Protection Insurance.