HomeownerLifeInsurance

FREE GUIDE

Homeowner life insurance guide: protect your mortgage

A plain guide to protecting a home loan with term life insurance

This guide is for people who own a home or are about to buy one. It explains how life insurance connects to a mortgage, how to size an amount and a term, and what to ask before you sign. It is general information, not advice. It shows no prices: price depends on age, health, tobacco use, the amount, the term and your state.

1. What life insurance does for a home loan

A mortgage keeps billing after a death. Homeowners insurance repairs the building and private mortgage insurance protects the lender, so neither one pays your family. A term life policy that names your family as beneficiary pays them a cash benefit. They can use it to pay off the loan, keep making the payments or cover other bills.

- **Homeowners insurance** covers damage to the property. It does not pay when a borrower dies.
- **Private mortgage insurance** protects the lender if payments stop. It never pays your family.
- **Life insurance** pays the people you name, and they decide how to use the money.
- Death benefits are generally not federal income to the beneficiary (IRS Publication 525). Ask a tax professional about your own case.

2. Four designs you will see

General education, not insurance, legal or tax advice. Figures are examples unless a source is named. Prices and rules vary by state and insurer.

Design	How the benefit behaves	Often fits
Level term	Same amount for the whole term. Terms of 10, 15, 20, 25 and 30 years are common.	Families who want the money to cover the loan and more
Decreasing term	The amount falls on a schedule, often following a loan balance.	Owners who only want to match the loan and want a lower price
Mortgage protection offer	Varies by product. Some pay the lender and shrink over time.	Anyone, once you have read who is paid and when it shrinks
Whole life	Lifetime coverage with a higher premium.	Owners who want permanent cover and can afford it

3. Size the amount in five steps

1. Write down the principal balance on your latest mortgage statement.
2. Add other debts you would not want to leave behind: car loans, cards, a HELOC, student loans.
3. Choose the years of income your family would need and multiply by yearly take home pay.
4. Add goals such as childcare or college, as a round amount.
5. Subtract life insurance you already have and savings you would use for this.

$440,000

Example gap

Needs of $620,000 less $180,000 already held. An example, not a quote.

4. Match the term to your longest need

A policy should last at least as long as the largest need it is meant to cover. Compare the years left on your loan with the years until your youngest child is on their own. Take the longer of the two and round up to the next common term.

Years left on the loan	Years until youngest is 22	Term to ask about
28	18	30 years
24	18	25 years
15	20	20 years
12	8	15 years

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A longer term usually costs more. Ask an agent to price the next length down as well, and ask whether the policy can be converted to permanent coverage later.

5. Name the right beneficiary

- Naming your family lets them choose: pay off the loan, keep paying it or use the money elsewhere.
- A benefit paid to the lender can only erase that loan, and some versions shrink as you pay down the balance.
- A minor child cannot manage a large payout directly. Ask an attorney about a trust or a custodian.
- The insurer pays the person named on the form, even if a will says something different. Update the form after a marriage, a divorce or a birth.

6. Questions to ask before you sign

- [ ] Who is the beneficiary, and does the amount ever go down?
- [ ] How long is the term, and what happens when it ends?
- [ ] Can the policy be converted to permanent coverage, and until when?
- [ ] Does the premium stay the same for the whole term?
- [ ] How long is the grace period if I miss a payment?
- [ ] How long is the free look period in my state?
- [ ] Which health questions or exams does the insurer require?

Free look: after a policy is delivered, your state gives you a set window to review it and return it for a refund. Use that time to check the beneficiary, the amount and the term.

Sources

- NAIC, life insurance consumer guide
  content.naic.org/consumer/life-insurance.htm
- CFPB, what is private mortgage insurance
  www.consumerfinance.gov/ask-cfpb/what-is-private-mortgage-insurance-en-122/
- IRS, Publication 525, taxable and nontaxable income
  www.irs.gov/publications/p525

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See real prices from a licensed agent at homeownerlifeinsurance.com/quote

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