

Get bond insurance as well as HOC

When you buy a new home, the bank will usually insist that you obtain a home owners' insurance (HOC) policy to provide for the replacement of a property that has been damaged or destroyed by fire, flood, high wind, earthquake or other disaster.

Such policies often also provide insurance against less serious damage resulting from burst geysers, falling trees and collapsing garden walls and they are most useful for giving you peace of mind, as a borrower, that you will not end up having to pay off a home loan on a property that has been destroyed while also trying to pay for your home to be rebuilt.

However, most lenders will be less insistent that you take out life insurance to cover the outstanding balance of your home loan and pay it off in the event of your death, says Shaun Rademeyer, CEO of BetterBond Home Loans, SA's leading mortgage origination group.

"Also known as bond insurance, this can make all the difference to your family at that time by enabling them to stay on in a home that is fully paid off, and you should thus consider it very seriously."

In addition, he says, you should think about whether you just want credit life insurance for the bond or whether you should take an additional normal life insurance policy specifically for this propose.

"If you decide on the former, also called decreasing-term life insurance, the coverage decreases monthly along with the outstanding balance of your home loan, which means that once you've paid off the loan, the policy will lapse and there will be no payout.

"But if you take out an ordinary life insurance policy, you can specify a fixed amount that matches or exceeds the amount of your home loan, and that will go straight to your beneficiaries in the event of your death.

"The benefits of this type of insurance are that the payout amount does not decrease in line with your home loan balance, and that your heirs can use the payout at their own discretion, and keep what is left if they decide to use some of it to pay off the mortgage."

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