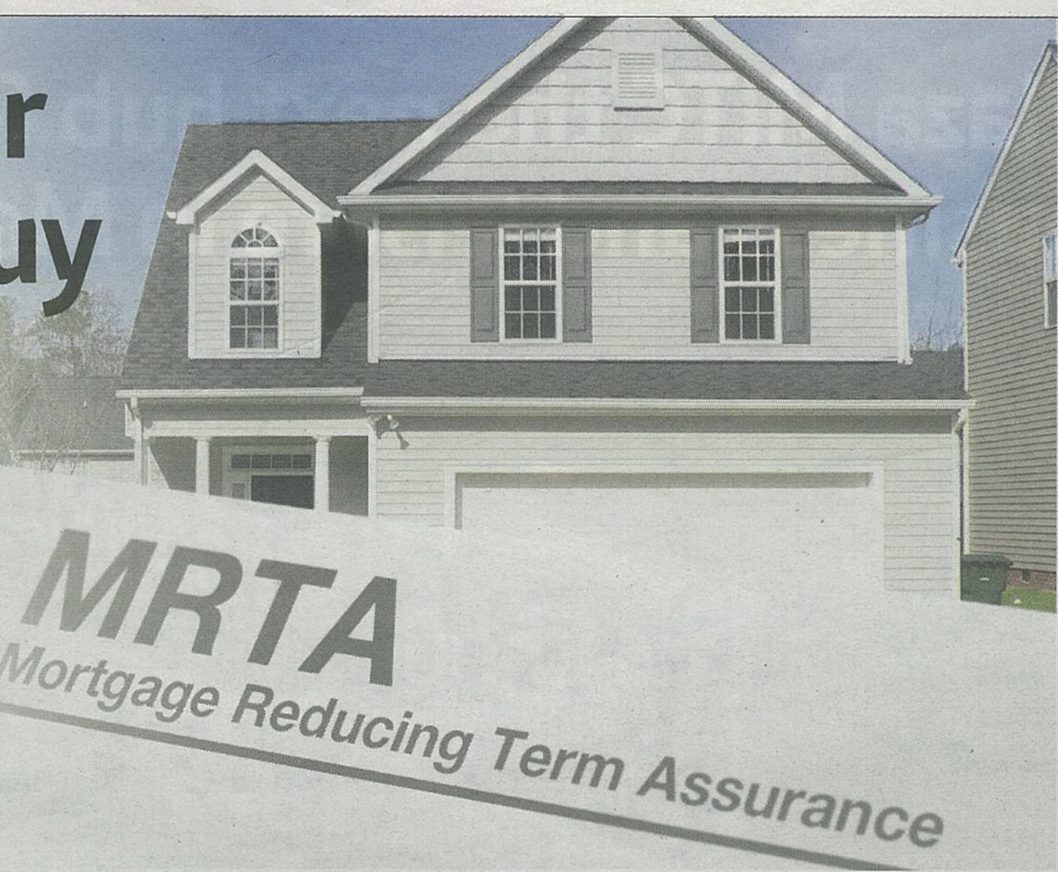
To buy or not to buy MRTA?



LIFE-SAVIOUR?
Michael discusses the pros and cons of purchasing MRTA together with your housing loan

To begin with, MRTA refers to Mortgage Reducing Term Assurance which is an Insurance policy associated with buying a house.

When you approach a bank to apply for a loan, under normal circumstances, you would be asked or encouraged to buy MRTA. What is MRTA and what is its function?

Michael Yeoh, is a 15-year veteran in mortgage financing and investment and owns a consultancy firm providing comprehensive mortgage solutions and real estate advisory

Coverage

As compared to a life assurance, MRTA has very limited coverage. It only covers Death and Total Permanent Disability (TPD). We all already know the definition of 'death' whereas Permanent Disability can only be claimed when the person is not fit and is unable to work anymore. If a person loses one hand, the claim is not allowed but if he loses both hands, then it is claimable.

Premium

The premium can be paid in one lump sum which will cover the whole loan tenure. If you compare this with other insurance policies, this is the cheapest form of coverage. If a person cannot afford to pay a whole lump sum, he can opt to finance the premium into the loan and thus the loan installment will increase. Do take note that by doing this, you will subject yourself to paying more interest as the bank is advancing the money to you to pay the premium.

Calculation

How much premium that is payable is subject to your age, loan amount and your loan tenure. The older you are and the higher the loan amount, the higher the premium you will have to pay. If a person is diagnosed with a certain illness, the insurance company has the right to reject the policy or there will be extra loading in the premium. It depends on how severe the illness is and will only be determined after a medical examination by their panel doctors.

Claims

Let's say a mishap occurred and it is claimable under the policy. If the policy covers 30 years' tenure and this happened on year 15, can a person claim the whole insured lump sum? No, you can't. MRTA works on the basis of a reducing balance which means if a person is insured for RM100,000 for a loan of RM100,000, the insurance company will only pay the outstanding amount that is still owed to the bank.

I have always encouraged my loan borrowers to buy MRTA as it provides additional coverage on top of their existing insurance policies as MRTA protects the home. If something happens to the home owner, at least the housing loan will be paid for by the insurance company and the family does not have an extra burden to continue the loan installment.

Additional points that you might want to take note:

Is it necessary to buy MRTA for whole loan tenure?

The minimum tenure to purchase MRTA is only five years. There is no law that states you must buy the whole tenure. It is totally up to you. If you do a proper mortgage planning and you know that you can finish your loan probably in about 15 years, you can opt to buy only 15 years. You will be saving thousands in premium payment.

If there are two (2) loan borrowers, what is the best solution?

If there are 2 loan borrowers, both can opt to buy 100 per cent coverage for each person. Alternatively, they can also opt to be covered 50 per cent each on the loan amount. So if something happens to either one of them, the insurance company will only settle 50 per cent of the loan.

Is it compulsory to purchase?

This depends on the bank you are applying your loan with. With certain banks, they can waive this requirement while in some banks, MRTA is compulsory. I have seen some banks adjust the interest rate higher if a loan borrower opts not to purchase. Whatever it is, if you ask for a waiver, make sure it is stated clearly in the offer letter so as not to be part of the requirement for disbursement of loan. I have seen some borrowers being caught off guard with this. Do not take things for granted.

What happens if I sell off my house or refinance before the end of my loan tenure?

Many loan borrowers forgot about their MRTA after the house is sold or refinanced. Do you know that after your house is sold and you provide evidence of your sale, you can surrender your policy and claim back the cash surrender value.

If you were to refinance, you can opt not to redeem the policy but you can transfer to your new loan. You will have to go to your insurance company and change the policy and also the beneficiary from the old bank to your next of kin. If you were to transfer the policy, the beneficiary cannot be the new bank.

What other options do I have apart from MRTA?

Well, definitely you will have other choices apart from MRTA. You can also opt for the following insurance coverage:

1. **Mortgage Leverage Term Assurance (MLTA)**
   The coverage is similar to MRTA but the coverage is constant throughout the loan tenure which means if something happens to the person assured, the insurance will pay based on the insured amount and not the outstanding loan balance. The premium is more expensive and is paid on a yearly basis. If there is no claim towards the end of the loan tenure, the insured person will be able to get back the entire premium that has been paid excluding the interest.
   In MLTA, you can also opt to buy additional coverage to expand to 36 critical illnesses.

2. **Takaful Mortgage Insurance**
   If you were to take an Islamic loan, the banker will introduce to you Takaful Mortgage Insurance. The function is the same as MRTA except in order to claim TPD, the insured has to suffer TPD for a continuous period of six months.

3. **Life Insurance**
   Life insurance will have more coverage as compared to MRTA. At the end of the tenure, you will be able to get back your premium inclusive of interest earned. For more information, please check with an insurance agent.

It is your decision whether to buy or not to buy MRTA. I hope that you will make the right decision. I had a client many years back who had four housing loans and for each of the loan, I bought MRTA for him. One day, his wife called me to say he had died suddenly. Luckily, all his outstanding housing loans were settled by the insurance company. His wife was not working at the time and he had left behind two small kids.

In the end, she managed to sell three of the properties and kept one for her own stay. She was able to use the proceeds of sale of the other three properties to carry on with her life comfortably.

Michael is also an author of the book 'Think Like A Banker, Act Like A Player'. You can purchase his book at www.gmtrainingacademy.com/publications/

PROPERTY Q&A

We give you the right answer

Q/A1

Zach T@Mont' Kiara: I hear a lot of horror stories about buying overseas properties, e.g. overseas tenants suing the landlord for failure to repair damages, etc. Can investors of overseas properties like us buy insurance to cover those kinds of claims from tenants? Is there a Landlord and Tenant Tribunal that can deal with this sort of issues?

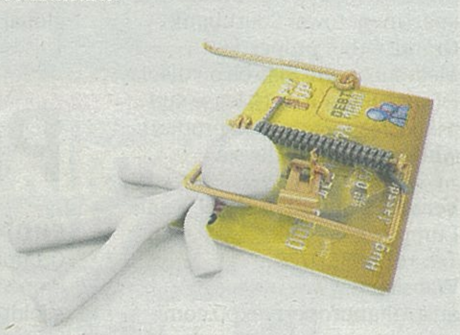
RED: Overseas tenants and landlords are usually governed by a set of laws and guidelines to protect both equally and fairly. In most matured countries such as New Zealand and Australia, all such disputes are usually resolved by a tribunal. Your leasing agent will handle and attend all such matters including attending at the tribunal on your behalf at very minimal cost. There are also Landlord Insurance available at very cheap cost i.e. A$280 p.a. which covers indemnity against damages up to even A$20 mil insured against loss of rent and many other items which may not be common here. ***By Alice Chow (alicechow@firstleadinvestments.com)***

Q/A2

Wan Mohd Ramizu@Selangor: For a long time, I have had problems buying a house. This is due to my credit card debt which has prevented me from getting any bank loans. However, I am still continuing my debt repayment to the best of my ability even though the bank did not seem to agree with the amount paid. As I am getting on in age, I am concerned with my family which has been renting a house for almost 20 years. I hope you can help me to overcome my problem.

RED: In order to get your loan approved, you must start from basic financial planning. This is not a day or two planning. It takes at least six months up to a year to build up your financial strength and you have to show the bank your capability to pay the loan installment. Do not keep on applying loans to the banks as your *Central Credit Reference Information System (CCRIS)* report will show your loan applications being rejected by the banks.

I am assuming that your loan is rejected because you have high credit gearing. Paying a minimum monthly payment promptly will not help much as your debt is still there. The only way for you is to start eliminating your debt one by one. You will also have to take into account your other debts as they will also affect your loan approval. ***By Michael Yeoh, financing consultant.***



Ask the RED-expert: Please fax your questions to: 03-2283 1700 or email to nstred@mediaprima.com.my