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55 YEARS

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Increasing mortgage debt makes life insurance a necessity - by Steven Vaphiades

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It is impossible to overstate the profound myriad of ways in which the COVID-19 pandemic has impacted life as we know it. One thing that has remained unaffected over the past year, however, is the escalating cost of housing.

Real estate brokerage Redfin recently reported that the national median home sale price increased 15 percent year over year, to \$318,250.¹ According to The Warren Group, in Massachusetts the median home sale price hit \$445,500 in 2020, up 11.4% from the previous year – the highest annual rate of increase in the Commonwealth since 2002.²

The main drivers responsible for the continued strength of the housing market – despite the pandemic – included record low mortgage interest rates and an ongoing lack of available inventory. In addition, with the prevalence of people working remotely and no longer needing to live within commuting distance of their employer's offices, many have opted to move to less-expensive suburban or rural communities where they can afford to have more living space and are naturally distanced from others.

Not surprisingly, the rock-bottom mortgage interest rates caused a spike in refinancing,³ either to reduce the rate on an existing loan balance or to take out additional equity for home improvements or to pay bills. People being forced by the pandemic to spend most of their time at home – which virtually overnight became remote workplaces, classrooms and family entertainment centers – were prompted to remodel their dwellings to better accommodate their “new normal,” whether by converting rooms to home offices, building an addition to create more space or renovating their outdoor space, which in many cases included a swimming pool.

As a consequence, the amount of mortgage debt being carried by American homeowners increased again in 2020. Data from the Federal Reserve Bank of New York show that total mortgage balances

at the end of the third quarter stood at \$9.86 trillion (including over \$1 trillion in mortgage originations in the third quarter alone, the second-highest quarterly volume on record), compared to \$9.44 trillion for the same period in the prior year.³ In their Annual Consumer Credit Review for 2020, Experian stated that nearly half of all adults in the U.S. now have a mortgage, with the average individual mortgage balance increasing by 2 percent, to \$208,185.⁴

These trends serve to reinforce the necessity for homeowners to protect their loved ones from the risk of losing their home (and way of life) in the event of the death of one of the family breadwinners. Purchasing a life insurance policy or increasing existing life insurance provides this important protection by ensuring that, if needed, the money will be there to pay off your mortgage balance.

If you have recently taken out a mortgage to purchase a home, or are among those who have refinanced their mortgage, now is a good time to reevaluate your life insurance needs. Starting or growing your family should also be a major consideration when determining the amount of life insurance protection you will need. An easy-to-use life insurance calculator is available at [SBLI.com](https://www.sbli.com).

Guaranteed level premium term life insurance provides a set death benefit with premiums guaranteed to never increase over the term selected, usually 10, 15, 20, 25, or 30 years. Key considerations in determining your premium will be your age, health, and other underwriting factors.

A 20- to 30-year level premium term life insurance policy is a good choice for homeowners with young children. As the mortgage balance decreases during the life of the policy, an increasing amount of the proceeds would be available to pay college tuition, maintain your family's lifestyle, or for other needs.

When making your purchase, you should consider the financial strength and stability of an insurance company, to be confident that they will be there when you need them. Independent rating agencies such as A.M. Best assign ratings to insurance companies based on the strength of their finances and claims-paying ability; SBLI is rated A (Excellent) by A.M. Best.⁵

The past year has been like no other that any of us has ever experienced, and has reminded us how precious our families and our homes are to us. Dependable term life insurance can provide the peace of mind that comes from knowing you have protected the things that matter most.

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1 "Housing Market Update: Asking Prices Hit a New High, Up 10% From Last Year" – Redfin.com, February 5, 2021.

2“Big Gains in Massachusetts Single-Family Home Sales and Median Price in December” – The Warren Group, January 19, 2021.

3“Total Household Debt Increased in Q3 2020, Led by Surge in New Credit Extensions; Mortgage Originations, Including Refinances, Continue to Soar” – Federal Reserve Bank of New York, www.newyorkfed.org, November 17, 2020.

4“Experian 2020 Consumer Credit Review” – Experian.com, January 4, 2021.

5 For the latest Best’s Credit Rating, access www.ambest.com.

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