# Credit Insurance

## What is credit insurance?

Credit insurance is optional insurance sold with a credit transaction, such as a mortgage or car loan, promising to pay all or a portion of the outstanding credit balance if the insured is unable to make their payments due to a covered event, such as loss of employment, illness, disability, or death. For example, you may be offered insurance that will pay or reduce your monthly loan payment if you become disabled, or that will pay off or reduce your loan if you die. If it is credit property insurance, it usually pays the lesser amount between the value of the item or the balance of the loan. If you decide to purchase credit insurance, the cost is usually added to the balance of your credit transaction.

## Are there different types of credit insurance?

Yes, including:

- **Credit Life Insurance** is similar to a term life insurance policy. When the borrower dies, proceeds of the policy are used to pay off all or part of the borrower's debt. Payment goes to the lender, who is the named beneficiary on the insurance policy. If insurance proceeds are greater than the debt, the surplus is paid to the borrower's estate.
- **Credit Disability Insurance** pays all or part of the borrower's monthly loan payment in the event the borrower becomes totally disabled. There is at least a 14-day waiting period. After the waiting period, benefits are either paid from day one (retroactive) or day 15 (non-retroactive).
- **Involuntary Unemployment Insurance** pays all or part of the borrower's monthly loan payment in the event the borrower loses income as a result of either a labor dispute or involuntary unemployment.
- **Credit Property Insurance** is insurance written in connection with a credit transaction where the collateral is not a motor vehicle, mobile home, or real estate and (1) covers perils to goods purchased through a credit transaction or used as collateral for a credit transaction and concerns a creditor's interest in the purchased goods or pledged collateral either in whole or in part, or (2) covers perils to goods purchased in connection with an open-end credit transaction. For example, a bank may insure a home if the borrower does not have coverage.

## Can credit insurance be a requirement to obtain a loan?

**Life, Disability, and Unemployment -** No, lenders cannot require you to purchase these types of insurance. Lenders may not deny your credit application if you decide not to purchase the insurance. A lender cannot add the cost of credit insurance to your credit transaction unless you have signed a request for the insurance.

**Property** - Yes, lenders can require any property used as collateral on a credit transaction to be insured. If the consumer does not already have insurance on the property, then insurance will need to be purchased at the time credit is extended. However, lenders cannot require the consumer to purchase insurance from them. Whether the required property insurance is purchased from the lender or directly from an insurance company, the lender will usually require they be covered under the insurance policy for the balance of the loan. Lenders may also offer credit property insurance that is not required. This optional insurance could insure collateral and/or non-collateral property.

## May I cancel credit insurance after I purchase it?

Yes. If you cancel within 10 days (30 days for credit property insurance) of the purchase, you are entitled to a full refund of insurance premium. If you cancel after the first 10 days (30 days for credit property insurance), you will receive a partial refund. In this case, the amount of the premium refund will usually be calculated by either the Rule of 78 method or the pro rata method. If you cancel required property insurance, then you may need to replace it with another property insurance policy.

"Lender-placed" or "force-placed" is required property insurance the lender adds to your credit transaction because you did not purchase it yourself. Lender-placed insurance tends to be more expensive than other coverage purchased through the private market and typically does not supply the same level of coverage.

### What does credit insurance cost?

Cost depends on the amount of credit balance, type of credit extended, and type of policy purchased. The larger the credit balance is, the more it will cost to insure it.

### Should I buy credit insurance?

Generally, credit insurance is more expensive in comparison to other forms of insurance. Be sure to consider whether you really need credit coverage. Consider the amount of insurance provided and the cost of that insurance.

If you already have a comprehensive homeowners or renters insurance policy, credit property insurance may duplicate existing coverage and may not be suitable for your needs.

### May claims be denied on credit disability insurance?

Claims may be denied for certain reasons, such as for a preexisting condition. Credit disability insurance plans that contain preexisting exclusions are usually defined as "six by six" plans. This means if you file a claim within the first six months of the credit transaction for a health condition that you were treated for during the six months prior to obtaining the credit, your claim can be denied due to the "preexisting condition" clause. Additionally, in a typical credit disability plan, the definition of total disability changes after the borrower is disabled for one year. During the first 12 consecutive months of disability, disability is defined as the inability to perform the duties of the regular occupation at the time the disability occurred. After the disability has lasted for 12 consecutive months, disability is defined as the inability to perform **any** occupation for which the borrower is reasonably fitted by education, training, or experience.

Credit disability insurance may not last for the entire duration of the loan. Credit disability insurance is generally written for 60 months, and any payments due after the insurance termination would not be covered. Credit insurance also may not cover balloon payments that are due at the end of a loan.

## Helpful Tips When Considering Credit Insurance

- Be sure to consider whether you really need credit coverage. Consider the amount of insurance provided and the cost of that insurance.
- Be sure you understand the limitations of coverage. The coverage may not be enough to completely pay off your debt or cover the property. Insurance on a credit card only pays the minimum monthly payment; it does not pay off the total credit card balance.
- Be careful of "free" insurance offers. Many companies offer a free introductory period of 30 to 90 days, but canceling the insurance after this period takes action on your part.
- When solicited over the phone, be sure to ask for the name of the caller, as well as the name of the company the caller represents. If you do not want the coverage, simply inform the solicitor of your wishes and hang up.
- Be sure to review credit card statements carefully. If a charge for insurance that you did not request appears on your statement, report the unauthorized charge immediately to both the credit card issuer and the insurance company. A phone number for the insurance company usually appears next to the premium charge on the credit card statement.
- When taking out a loan of any kind, look over all documents before you sign anything. Do not be afraid to ask questions if you do not understand something you are being asked to sign.

- Remember that lenders cannot condition a consumer loan on whether or not you purchase credit life, disability, or unemployment insurance.