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The 2005 Fact Book of Credit-Related Insurance

1951 *2005*

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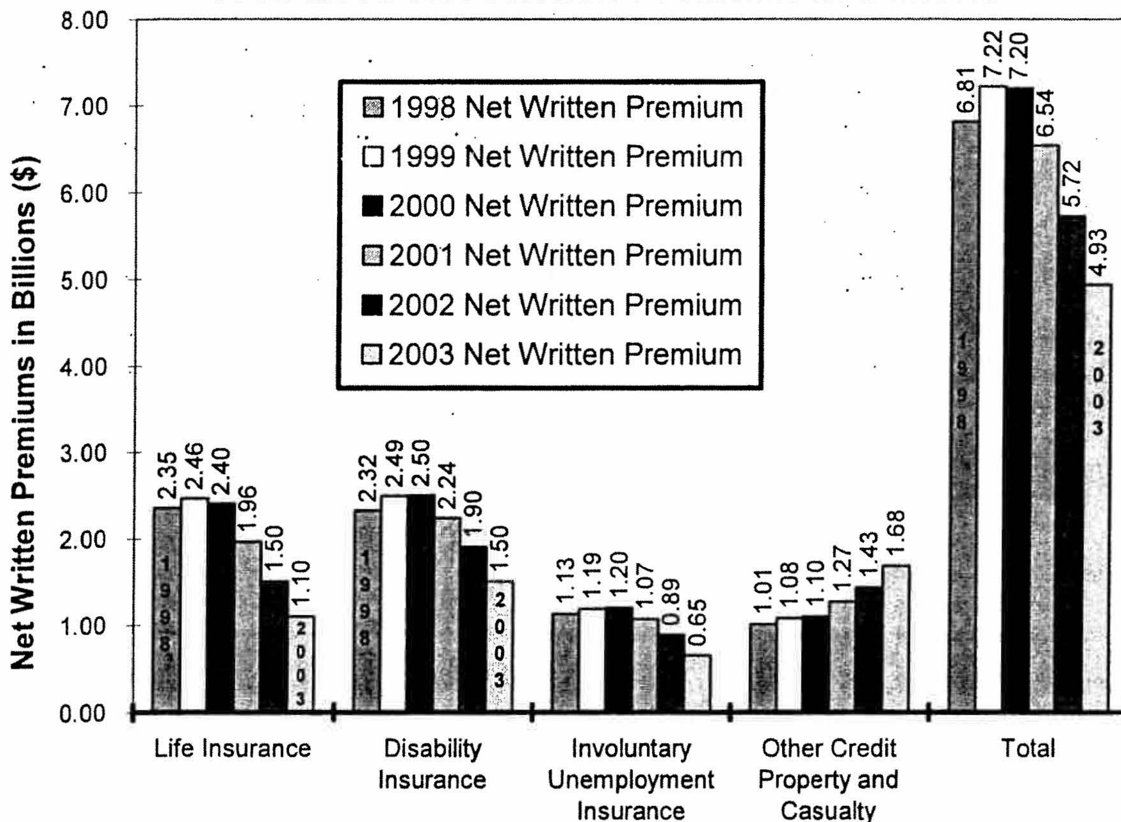
Summary of Recent Industry Trends

Overview of the Industry

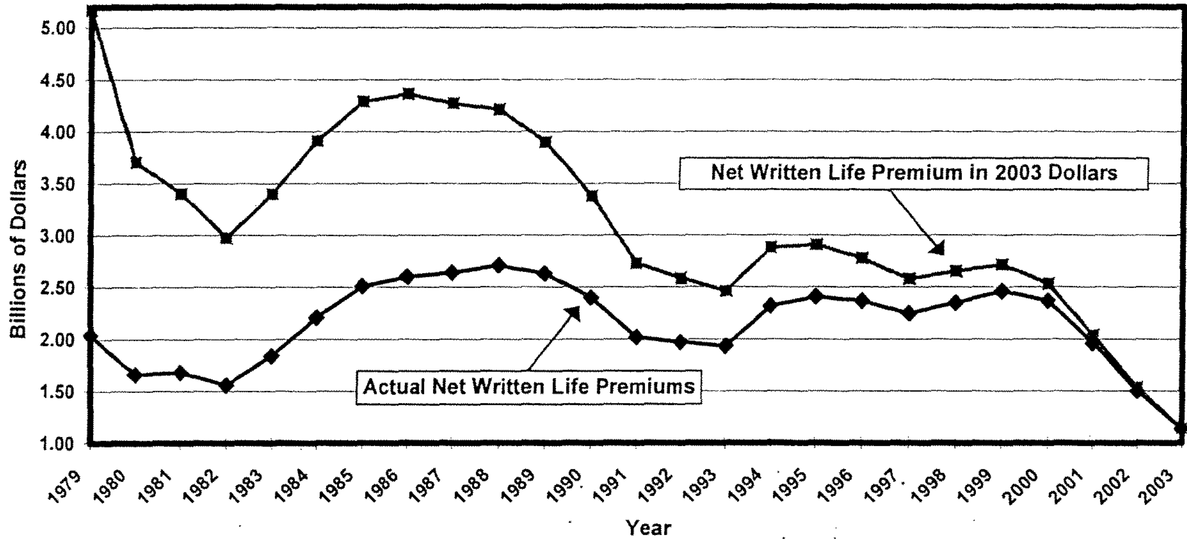
Except for credit property and casualty insurance, the countrywide premiums for most credit-related insurance have declined in the last two years, as demonstrated below.

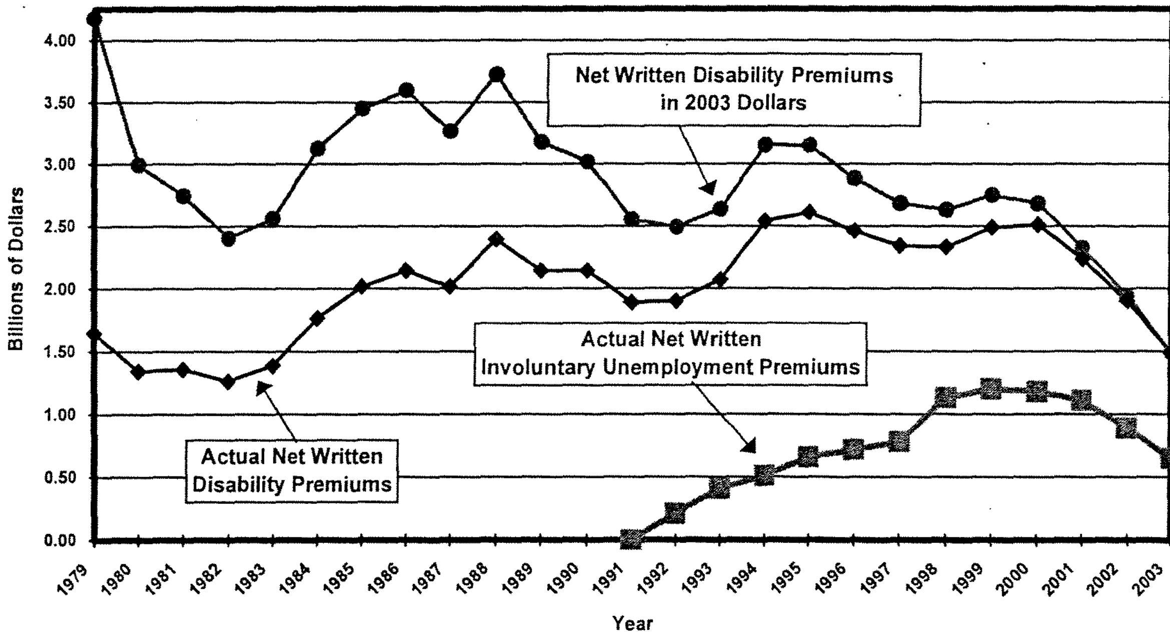
- Credit life insurance net written premium decreased by 27% in 2003.
- Credit disability insurance net written premium decreased by 21% in 2003.
- Involuntary unemployment insurance net written premium grew strongly during the 1990s, but it leveled off and is now starting to decrease, showing the effect of the movement by the credit card issuers from credit insurance to debt protection products.
- Other credit property and casualty insurance net written premium has shown a steady increase during the last five years, primarily growth in creditor-placed collateral protection insurance.
- Total premiums in 2003 decreased by 14%, continuing to drop from the higher levels reached in 1999 and 2000.



Credit-Related Insurance Premiums Are at 30-Year Lows

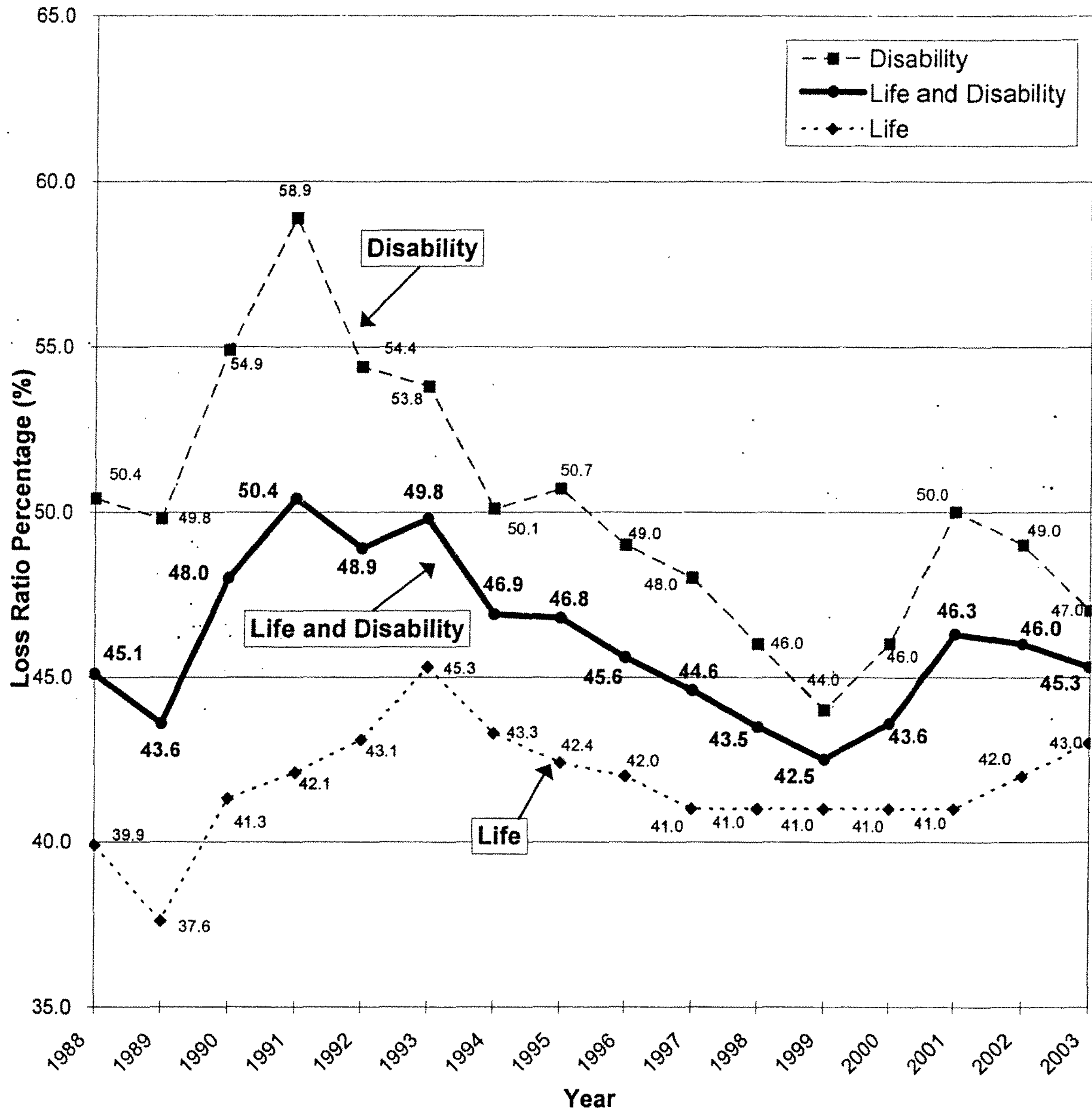
Net written premiums for credit life and credit disability insurance have dropped from recent highs, and they do not come close to the levels attained in 1979, when measured in constant dollars.

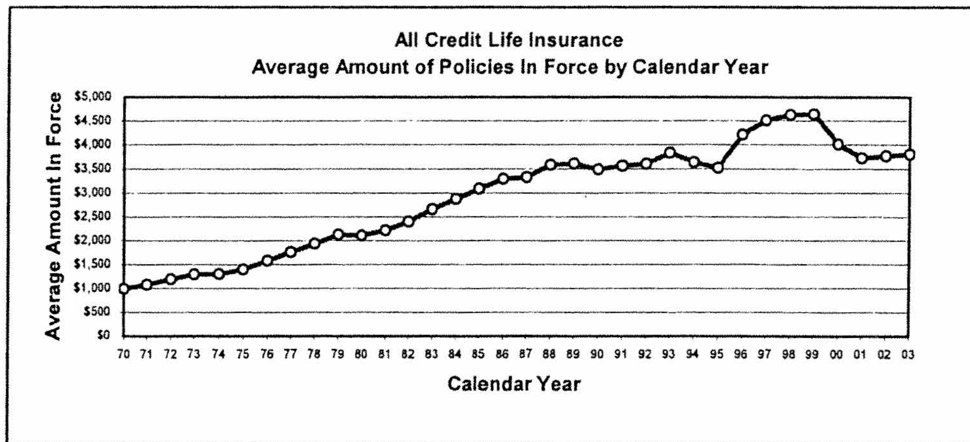




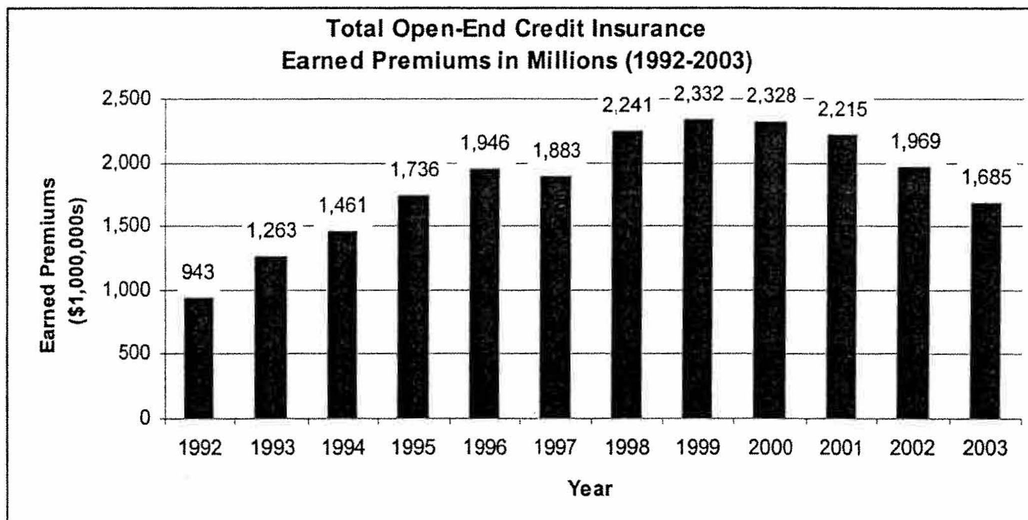
Countrywide Loss Ratios at Actual Premiums Are Fluctuating

Both the credit life and the credit disability insurance countrywide loss ratios have fluctuated from 1987 through 2003, but the range of fluctuations has been narrow in the last six years. Since approximately 65% of the new business is still single premium coverage, the effect of 1996-2003 rate reductions is beginning to appear. Considering the impact of further rate reductions in 2004, the trends are likely to continue.





Open-End Credit Insurance—Countrywide Data					
Earned Premiums ($)					
Year	Life	Disability	IUI	Total	Percentage Change from Prior Year
2003	506,265,285	657,252,835	521,261,090	1,684,779,210	(14%)
2002	549,832,830	738,186,003	681,228,688	1,969,247,521	(11%)
2001	585,593,097	812,007,498	817,731,219	2,215,331,814	(5%)
2000	579,980,330	834,038,648	914,240,084	2,328,259,062	(0%)
1999	571,042,752	822,540,579	938,013,801	2,331,597,132	4%
1998	589,406,703	849,952,594	801,594,969	2,240,954,266	19%
1997	553,376,526	730,338,718	599,638,941	1,883,354,185	(3%)
1996	573,311,269	731,542,939	641,617,617	1,946,471,825	12%
1995	522,611,047	676,830,252	536,187,512	1,735,628,811	19%
1994	453,636,894	600,324,147	406,591,038	1,460,552,079	16%
1993	383,100,010	520,821,813	358,971,222	1,262,893,045	34%
1992	341,732,215	430,518,935	171,090,950	943,342,100	N/A

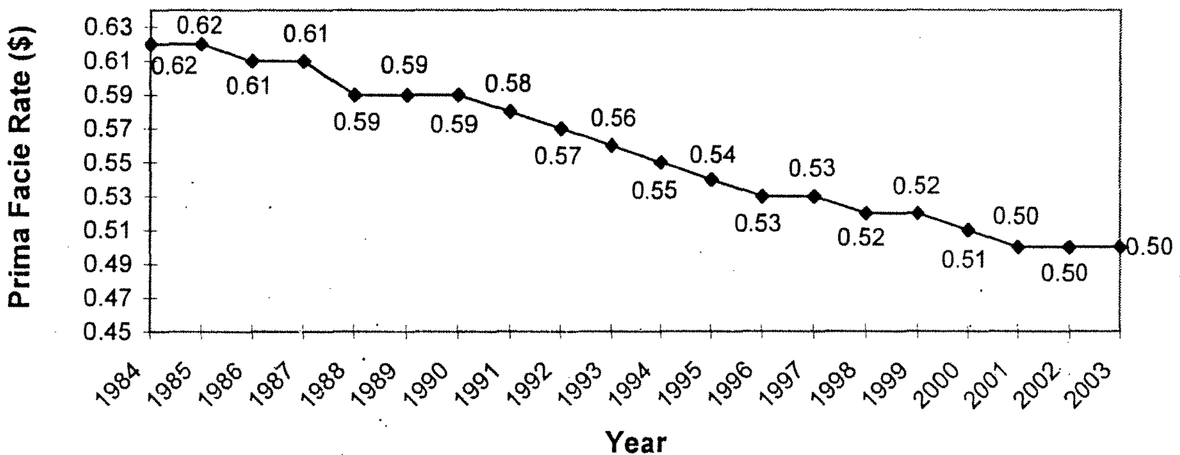


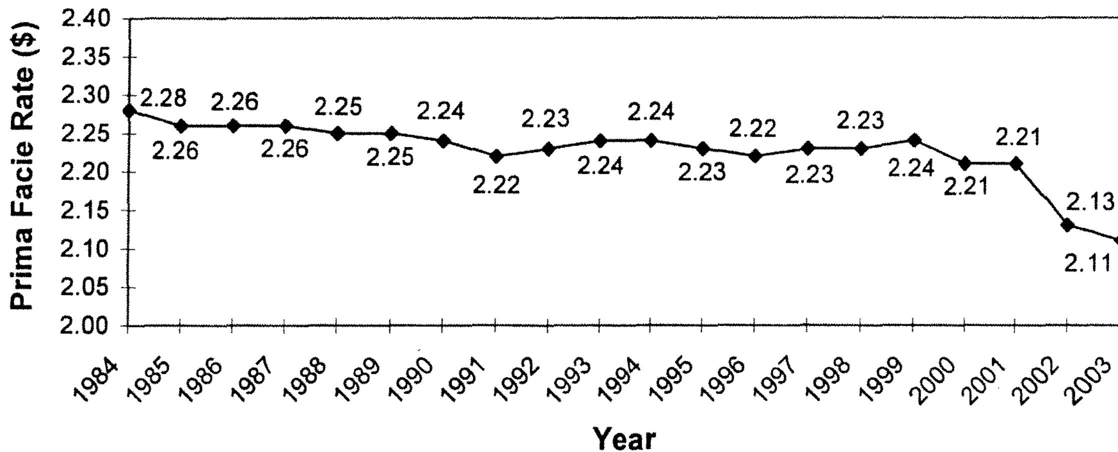
Premium Rates and Claim Costs

Downward Trend in Prima Facie Rates Continues

The countrywide weighted average credit life insurance prima facie rate has been declining steadily since 1984, dropping from 62¢ [$0.62 = single premium rate/$100 of outstanding balance/year of coverage] in 1984 to 50¢ in 2003—a drop of 19%. In 1950, the prevailing rate was $1.00.

By contrast, the countrywide weighted average credit disability insurance prima facie rate has dropped from $2.28 in 1984 to $2.11 in 2003—a drop of only 7.5%.





2003 Credit Life Insurance Experience by State

State	2003 Direct Written Premiums In 1000s $	Percent of Total %	State Rank Premium Volume #	Number Insurers Writing > $ 0 #	12/31/2003 Approximate Rate SP/100/Year $	2003 Loss Ratio @ Prima Facie %	2003 SP Claim Cost Per $100 Per Year $	2002 SP Claim Cost Per $100 Per Year $	2003 Commission Percentage % of NWP	State
Alabama	23,139	2.03	17	38	0.80	37	0.30	0.26	38	AL
Alaska	3,034	0.27	47	17	0.37	52	0.19	0.14	36	AK
Arizona	12,332	1.08	29	39	0.30	47	0.14	0.14	26	AZ
Arkansas	19,269	1.69	24	36	0.65	30	0.20	0.23	36	AR
California	26,007	2.28	16	31	0.33	48	0.16	0.15	22	CA
Colorado	12,904	1.13	28	28	0.38	35	0.13	0.15	33	CO
Connecticut	7,223	0.63	39	27	0.50	33	0.17	0.17	29	CT
Delaware	3,628	0.32	52	29	0.65	53	0.34	0.24	31	DE
DC	1,254	0.11	45	16	0.49	46	0.23	0.20	13	DC
Florida	52,679	4.61	4	40	0.44	52	0.23	0.19	37	FL
Georgia	45,362	3.97	7	40	0.45	54	0.24	0.23	34	GA
Hawaii	3,033	0.27	48	22	0.40	35	0.14	0.13	18	HI
Idaho	7,892	0.69	36	28	0.54	32	0.17	0.17	40	ID
Illinois	41,950	3.67	9	42	0.47	43	0.20	0.19	29	IL
Indiana	19,351	1.69	23	43	0.44	40	0.18	0.13	28	IN
Iowa	14,991	1.31	27	32	0.45	41	0.18	0.14	41	IA
Kansas	15,909	1.39	26	32	0.65	33	0.21	0.20	43	KS
Kentucky	27,195	2.38	15	35	0.60	27	0.16	0.20	46	KY
Louisiana	46,842	4.10	5	50	0.80	25	0.20	0.21	49	LA
Maine	5,486	0.48	41	17	0.30	45	0.14	0.17	12	ME
Maryland	18,096	1.58	25	30	0.43	53	0.23	0.23	20	MD
Massachusetts	9,160	0.80	34	22	0.45	33	0.15	0.14	38	MA
Michigan	46,194	4.04	6	31	0.48	40	0.19	0.21	42	MI
Minnesota	4,719	0.41	43	22	0.40	42	0.17	0.15	26	MN
Mississippi	20,459	1.79	18	40	0.80	32	0.26	0.22	34	MS
Missouri	34,155	2.99	12	46	0.55	47	0.26	0.26	37	MO
Montana	3,435	0.30	46	19	0.52	40	0.21	0.19	27	MT
Nebraska	7,881	0.69	37	31	0.55	30	0.17	0.15	33	NE
Nevada	5,799	0.51	40	28	0.65	34	0.22	0.21	25	NV
New Hampshire	4,982	0.44	42	18	0.42	37	0.16	0.15	39	NH
New Jersey	10,947	0.96	33	23	0.40	47	0.19	0.20	32	NJ
New Mexico	11,561	1.01	32	37	0.47	38	0.18	0.19	32	NM
New York	38,985	3.41	11	14	0.39	51	0.20	0.22	9	NY
North Carolina	55,512	4.86	2	33	0.50	44	0.22	0.21	35	NC
North Dakota	4,349	0.38	44	19	0.40	29	0.12	0.13	42	ND
Ohio	41,094	3.60	10	35	0.42	52	0.22	0.19	33	OH
Oklahoma	20,180	1.77	21	35	0.68	32	0.22	0.26	34	OK
Oregon	11,801	1.03	30	26	0.42	53	0.22	0.21	31	OR
Pennsylvania	20,455	1.79	19	23	0.45	53	0.24	0.22	22	PA
Puerto Rico	55,487	4.86	3	11	0.65	29	0.19	0.18	32	PR
Rhode Island	1,875	0.16	51	20	0.46	43	0.20	0.22	30	RI
South Carolina	33,787	2.96	13	38	0.55	43	0.24	0.23	34	SC
South Dakota	7,529	0.66	38	25	0.56	36	0.20	0.17	23	SD
Tennessee	42,497	3.72	8	41	0.66	41	0.27	0.25	33	TN
Texas	144,083	12.61	1	47	0.30	41	0.12	0.13	40	TX
Utah	8,999	0.79	35	33	0.42	38	0.16	0.15	32	UT
Vermont	2,746	0.24	49	16	0.35	43	0.15	0.18	27	VT
Virginia	32,456	2.84	14	30	0.38	58	0.22	0.22	30	VA
Washington	19,396	1.70	22	30	0.60	51	0.31	0.25	27	WA
West Virginia	11,771	1.03	31	29	0.65	39	0.25	0.26	42	WV
Wisconsin	20,401	1.79	20	32	0.37	43	0.16	0.16	32	WI
Wyoming	2,177	0.19	50	22	0.50	39	0.20	0.21	24	WY
Total	**1,142,448**	**100.00**		**140**	**0.49**	**40**	**0.20**	**0.20**	**31**	**Total**

2003 Credit Disability Insurance Experience by State

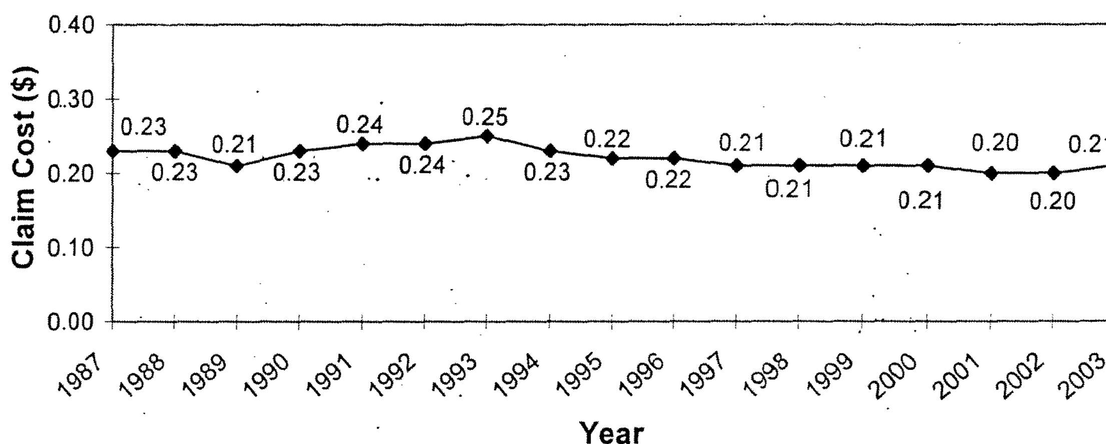
State	2003 Direct Written Premiums In 1000s $	State Rank Premium Volume #	12/31/2003 14R SP Rate per $100 at 48 mos. $	2003 Loss Ratio @ Prima Facie %	2003 14R SP Claim Cost Per $100 at 48 mos. $	2002 14R SP Claim Cost Per $100 at 48 mos. $	Combined Life & Disability Loss Ratio @ Prima Facie %	State
Alabama	25,316	21	4.80	50	2.40	2.54	43	AL
Alaska	3,551	50	2.10	36	0.76	0.86	44	AK
Arizona	15,077	31	3.45	40	1.38	1.28	44	AZ
Arkansas	11,540	35	4.13	50	2.07	2.27	37	AR
California	67,040	5	3.32	48	1.59	1.73	48	CA
Colorado	17,729	29	3.48	36	1.25	1.32	36	CO
Connecticut	12,853	34	3.32	40	1.33	1.39	37	CT
Delaware	4,501	46	4.30	46	1.98	2.28	50	DE
DC	3,314	51	No 14R	43	No 14R	No 14R	44	DC
Florida	61,788	7	3.10	44	1.36	1.43	49	FL
Georgia	69,077	4	4.60	33	1.52	1.75	43	GA
Hawaii	10,733	37	3.16	43	1.36	1.55	40	HI
Idaho	10,158	38	4.30	43	1.85	2.02	37	ID
Illinois	70,229	3	3.90	35	1.37	1.52	38	IL
Indiana	38,344	15	3.71	46	1.71	1.67	43	IN
Iowa	24,611	22	3.53	45	1.59	1.52	43	IA
Kansas	18,038	28	4.30	34	1.46	1.68	34	KS
Kentucky	29,867	18	6.36	45	2.86	3.24	35	KY
Louisiana	41,398	13	4.60	46	2.12	1.79	33	LA
Maine	9,833	40	No 14R	68	No 14R	No 14R	59	ME
Maryland	22,451	24	3.05	59	1.80	1.62	56	MD
Massachusetts	23,087	23	No 14R	39	No 14R	No 14R	37	MA
Michigan	76,097	2	4.30	48	2.06	2.28	44	MI
Minnesota	20,421	26	3.88	29	1.13	1.24	35	MN
Mississippi	18,845	27	5.40	42	2.27	2.43	36	MS
Missouri	32,075	17	4.30	43	1.85	1.94	45	MO
Montana	4,542	45	4.12	53	2.18	2.18	46	MT
Nebraska	13,711	32	3.85	39	1.50	1.50	35	NE
Nevada	9,203	43	4.30	25	1.08	1.25	30	NV
New Hampshire	9,652	41	2.66	47	1.25	1.12	43	NH
New Jersey	22,147	25	2.49	67	1.67	1.44	57	NJ
New Mexico	10,087	39	2.98	52	1.55	1.52	43	NM
New York	59,191	8	6.06	48	2.91	2.85	49	NY
North Carolina	61,964	6	4.40	54	2.38	2.42	49	NC
North Dakota	4,137	48	3.40	42	1.43	1.36	35	ND
Ohio	58,931	9	3.21	51	1.64	1.89	52	OH
Oklahoma	13,329	33	4.60	29	1.33	2.16	31	OK
Oregon	17,580	30	3.73	50	1.87	2.24	51	OR
Pennsylvania	53,238	10	3.96	69	2.73	2.61	62	PA
Puerto Rico	28,659	20	No 14R	37	No 14R	No 14R	32	PR
Rhode Island	3,837	49	4.02	40	1.61	1.97	41	RI
South Carolina	40,560	14	3.40	70	2.38	2.11	56	SC
South Dakota	7,260	44	3.85	30	1.16	1.08	33	SD
Tennessee	42,865	12	4.13	54	2.23	2.27	47	TN
Texas	148,598	1	2.77	48	1.33	1.36	45	TX
Utah	9,541	42	3.58	31	1.11	1.29	35	UT
Vermont	4,456	47	3.00	45	1.35	1.68	45	VT
Virginia	46,815	11	3.61	65	2.35	2.13	62	VA
Washington	29,110	19	4.30	43	1.85	2.06	47	WA
West Virginia	11,191	36	3.65	118	4.31	4.12	70	WV
Wisconsin	38,171	16	2.46	57	1.40	1.45	51	WI
Wyoming	3,161	52	4.30	54	2.32	2.11	46	WY
Total	**1,489,909**		**3.85**	**48**	**1.85**	**1.84**	**45**	**Total**

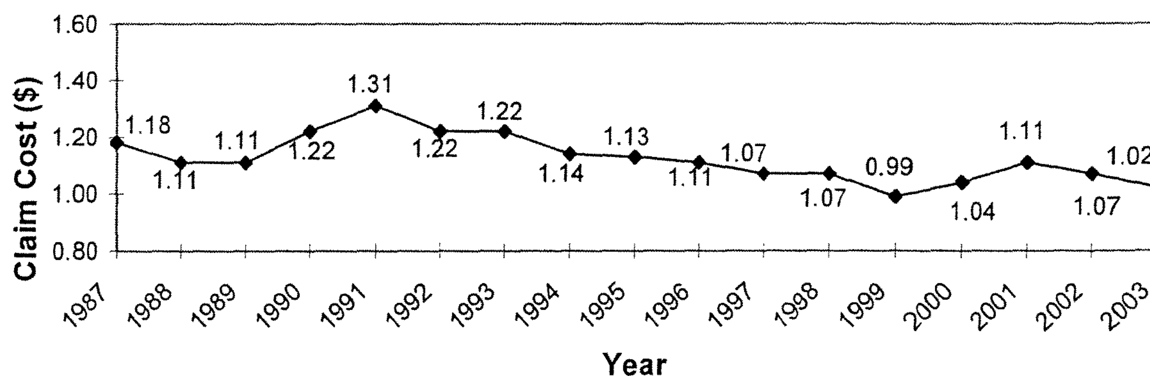
Claim Costs

Claim Costs Have Remained Fairly Constant

The credit life insurance value is the cost of claims expressed in cents per $100 of initial gross indebtedness per year of coverage (¢/$100/year), the same basis on which single premium rates are expressed. The countrywide average claim cost for credit life insurance, from 1987 through 2003, was 22¢/$100/year. It has fluctuated over a narrow range (plus or minus 10%) for over ten years. Underwriting standards stabilized by the mid-1990s, resulting in a stable countrywide claim cost for the last nine years.

The credit disability insurance value is the claim cost expressed in cents per $100 of initial gross indebtedness (¢/$100) for 12-month coverage on the 14-day retroactive plan, the same basis on which single premium rates are expressed. Similar to credit life insurance, a narrowly fluctuating claim cost pattern has prevailed for more than ten years for credit disability insurance. Yearly fluctuations have been in the plus or minus 15% range. Because of the approximations necessary to make this calculation, these results are less reliable than the calculations for credit life insurance.





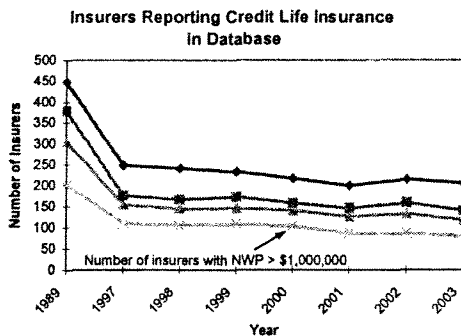
The Insurers of Credit-Related Insurance

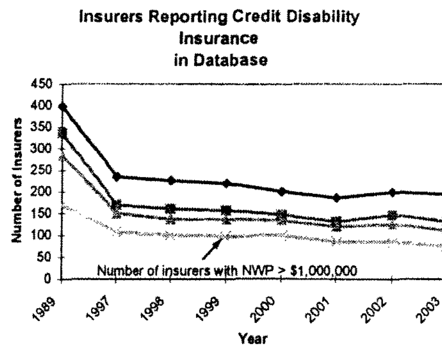
Number of Insurers Writing Credit-Related Insurance Is Declining

As net written premium has declined, the number of companies writing credit-related insurance has been trending downward. The chart below illustrates that between 1989 and 2003 the number of insurers writing both credit life insurance and credit disability insurance dropped dramatically. The industry is even more consolidated by corporate group; many corporate groups contain five or more credit insurers. However, the number of insurers writing other credit-related property and casualty insurance has remained stable.

Count of Insurers by Net Written Premium (NWP)

	Credit Life Insurance							
	1989	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Number of insurers in database	448	248	241	233	217	199	215	206
Number of insurers with NWP > $0	379	176	167	173	158	146	159	140
Number of insurers with NWP > $100,000	304	154	144	146	140	126	133	118
Number of insurers with NWP > $1,000,000	201	110	106	108	103	87	87	80
	Credit Disability Insurance							
	1989	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Number of insurers in database	399	235	226	220	200	186	199	194
Number of insurers with NWP > $0	337	170	161	157	146	131	146	132
Number of insurers with NWP > $100,000	284	150	137	137	133	120	125	111
Number of insurers with NWP > $1,000,000	170	107	101	98	99	86	85	75
	Credit Involuntary Unemployment Insurance							
		1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Number of insurers in database	**Not Reported**	43	39	41	36	38	43	46
Number of insurers with NWP > $0		37	34	37	33	33	38	41
Number of insurers with NWP > $100,000		29	26	31	28	28	31	30
Number of insurers with NWP > $1,000,000		22	21	21	21	19	23	19
	Other Credit-Related Property & Casualty Insurance							
		1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Number of insurers in database	**Not Reported**	41	45	48	52	47	54	50
Number of insurers with NWP > $0		36	35	41	46	40	46	45
Number of insurers with NWP > $100,000		36	33	39	41	37	44	41
Number of insurers with NWP > $1,000,000		29	29	36	36	32	34	34





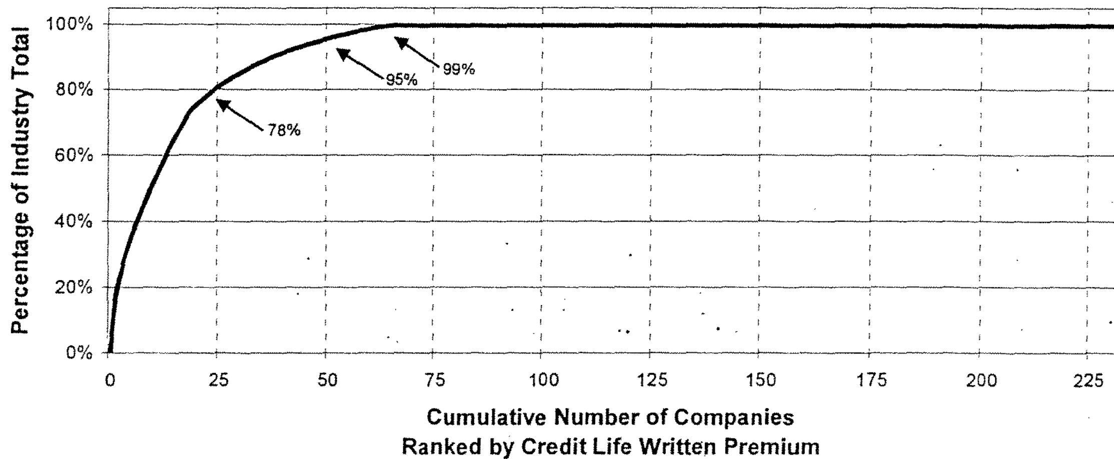
Number of Insurers in Database
Number of Insurers with Net Written Premiums >$0
Number of Insurers with Net Written Premiums >$100,000
Number of Insurers with Net Written Premiums >$1,000,000

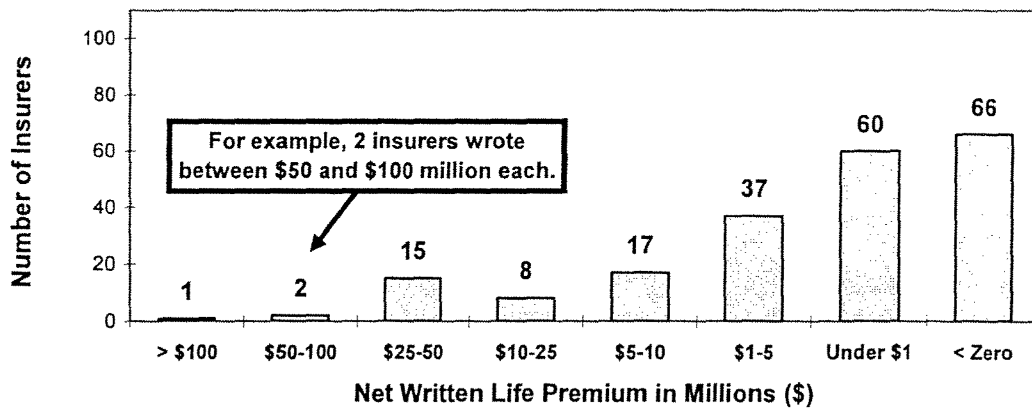
Bulk of the Business Is Written by Top 25 Insurers

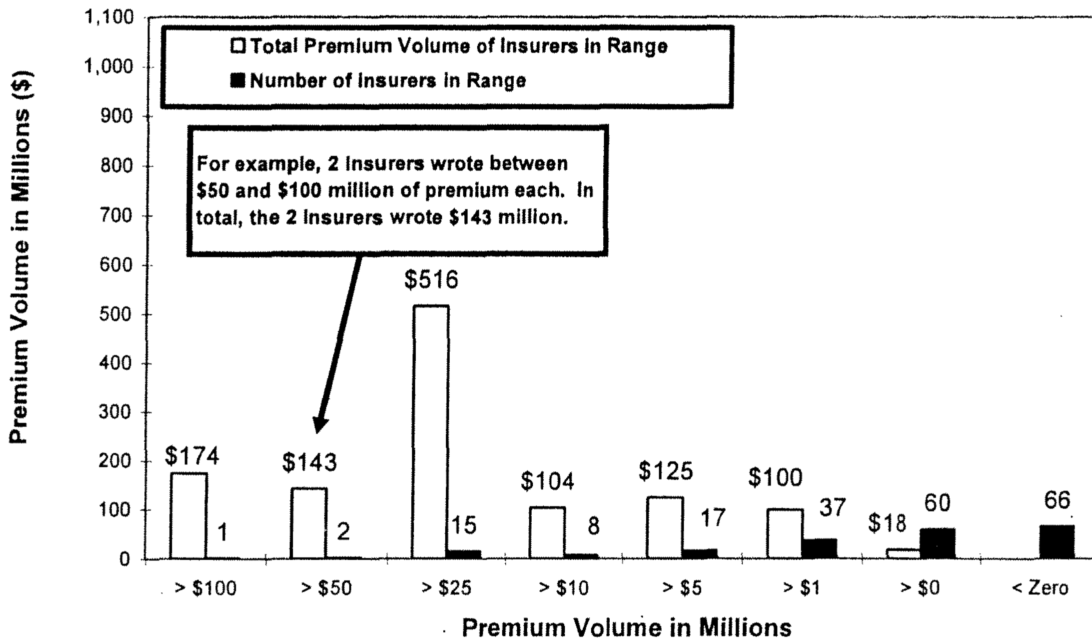
The credit-related insurance industry is concentrated. A relatively small number of insurers issue most of the business. The following charts depict credit life insurers ranked by net written premium:

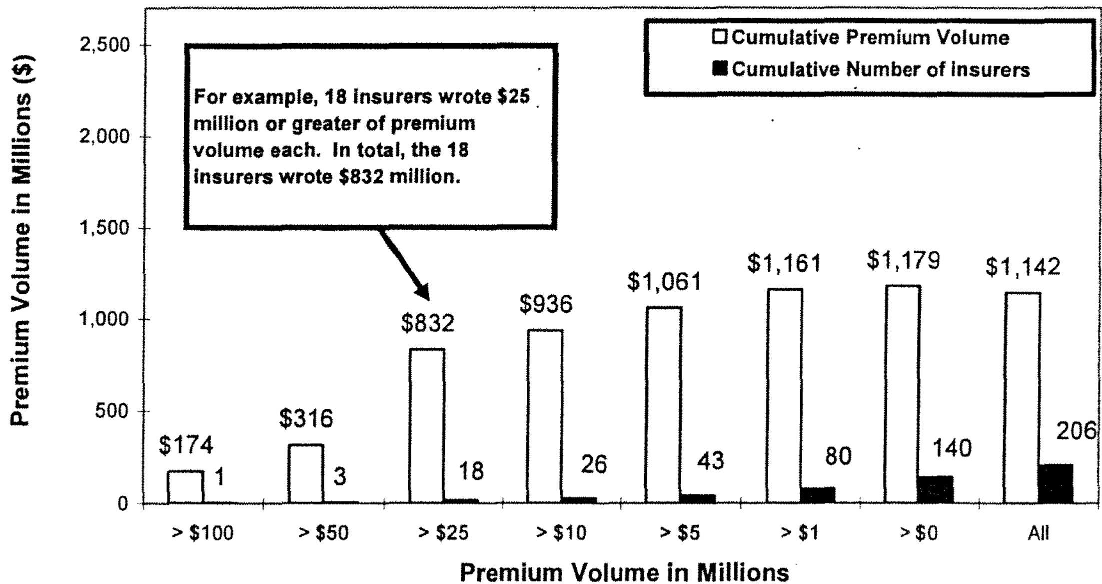
- The top 25 companies write 78% of the business
- The top 50 companies write 95% of the business
- The top 70 companies write virtually all of the business

These trends clearly demonstrate the consolidation of the industry. The top 25 corporate groups write 94% of the total industry volume.






Premium Volume and Number of Insurers
2003 Credit Life Insurance Data
Total Premium Volume of Insurers in Range
Number of Insurers in Range
For example, 2 insurers wrote between $50 and $100 million of premium each. In total, the 2 insurers wrote $143 million.
Premium Volume in Millions ($)
1,100
1,000
900
800
700
600
500
400
300
200
100
0
$174
1
$143
2
$516
15
$104
8
$125
17
$100
37
$18
60
66
> $100
> $50
> $25
> $10
> $5
> $1
> $0
< Zero
Premium Volume in Millions


Cumulative Premium Volume and
Cumulative Number of Insurers
2003 Credit Life Insurance Data
Cumulative Premium Volume
Cumulative Number of Insurers
For example, 18 insurers wrote $25 million or greater of premium volume each. In total, the 18 insurers wrote $832 million.
Premium Volume in Millions ($)
2,500
2,000
1,500
1,000
500
0
$174
1
$316
3
$832
18
$936
26
$1,061
43
$1,161
80
$1,179
140
$1,142
206
> $100
> $50
> $25
> $10
> $5
> $1
> $0
All
Premium Volume in Millions

2003 Direct Written (G-R) Premium by Corporate Group					
Rank	**Group Name**	**Primary Credit Insurers**	**Primary Classes of Business**	**Total Premium Life and P&C**	**Market Share**
1	Assurant Group	American Bankers Ins. Co. of FL American Bankers Life Asr. Co. American Security Ins. Co. Union Security Life Ins. Co.	Auto, Bank, Finance Company, Retail, and Credit Card	1,563,554,507	31.5%
2	CUNA Mutual Group	CUNA Mutual Ins. Society Cumis Ins. Society Inc.	Credit Union	636,103,687	12.8%
3	Countrywide Group	Balboa Ins. Co. Balboa Life Ins. Co.	Bank, Credit Union, Credit Card	499,425,545	10.1%
4	American Intl Group	Merit Life Ins. Co. American General Assurance Co. American General Indemnity Co. Yosemite Ins. Co.	Mixed	281,138,647	5.7%
5	Protective Ins Group	Protective Life Ins. Co. Lyndon Property Ins. Co. Western Diversified Life Ins. Co.	Auto	191,974,161	3.9%
6	Allstate Ins Group	Allstate Ins. Co. American Heritage Life Ins. Co. First Colonial Ins. Co.	Auto, Bank	181,786,286	3.7%
7	Aegon USA Inc	Life Investors Ins. Co. of America Monumental Life Ins. Co. J C Penney Ins. Group	Auto, Bank, Credit Union	152,133,029	3.1%
8	Household Ins Group	Household Ins.Co. Central National Life Ins. Co.	Finance Company	139,310,872	2.8%
9	Berkshire-Hathaway	Central States Indemnity Co. National Indemnity Co.	Credit Card	109,594,603	2.2%
10	Minnesota Life Ins Group	Minnesota Mutual Life Ins. Co. Northstar Life Ins. Co.	Credit Unions, Banks	103,626,703	2.1%
11	Aon Corp	Combined Ins. Co. of America Resource Life Ins. Co.	Auto	99,052,864	2.0%
12	American National Group	American National Ins. Co. American National Property & Cas. Co.	Auto, Bank, Credit Union	91,893,881	1.9%
13	Central States Group	Central States H & L Co. of Omaha	Bank, Finance Company, Auto	79,975,786	1.6%
14	Life of the South	American Republic Ins. Co. Bankers Life of Louisiana Life of the South Ins. Co. Southern Financial Life Ins. Co.	Auto, Banks	78,258,103	1.6%
15	Zurich Ins Group	Universal Underwriters Life	Auto	66,951,121	1.3%
16	J M Family Enterprises	JMIC Life Ins. Co.	Auto	65,034,692	1.3%
17	Motors Ins Corp	MIC P & C Ins.	Auto	53,738,372	1.1%
18	Service Life Group	Service Life & Casualty Ins. Co.	Auto	44,685,474	0.9%
19	Guarantee Trust	Guarantee Trust Life Ins. Co.	Finance Company	41,420,543	0.8%
20	American United Life	American United Life Ins. Co. Cherokee National Life Ins. Co.	Bank, Credit Union	41,037,112	0.8%
21	Ace Ltd	Ace American Ins. Co.	Mixed	40,473,813	0.8%
22	Citigroup	American Health & Life Ins. Co. Triton Ins. Co. (VGIC) Associates Financial Life Ins. Co.	Finance Company, Bank	37,161,452	0.7%
23	Enterprise Financial	Enterprise Life Ins. Co.	Auto	25,319,316	0.5%
24	Cardif	Financial American Life Ins. Co.	Mixed	22,598,604	0.5%
25	Wells Fargo	Centurion Cas. Co. Centurion Life Ins. Co.	Finance Company	19,588,285	0.4%
26	Geneve Holdings Group	Madison National Life Ins. Co.	Mixed	19,171,102	0.4%
27	LDS Group	First Assurance Life of America	Credit Union	16,336,900	0.3%
28	American Modern Home Group	American Modern Life Ins. Co.	Bank, Credit Union	16,126,898	0.3%
29	Plateau Group	Plateau Casualty Ins. Co. Plateau Ins. Co.	Mixed	15,664,062	0.3%
30	Amerco	Oxford Life Ins. Co. North American Ins. Co.	Auto, Credit Union	15,518,088	0.3%

2003 Direct Written (G-R) Premium by Corporate Group						
Rank	Group Identification	Life	Disability	Unemployment	Property	Total
1	Assurant Group	123,078,224	236,468,563	438,725,396	765,282,324	1,563,554,507
2	CUNA Mutual Group	173,626,887	377,802,302	0	84,674,498	636,103,687
3	Countrywide Group	4,538,062	10,235,917	16,413,638	468,237,928	499,425,545
4	American Intl Group	121,560,757	105,023,477	23,779,026	30,775,387	281,138,647
5	Protective Ins Group	72,614,608	66,593,473	14,397,989	38,368,091	191,974,161
6	Allstate Ins Group	33,562,022	36,468,789	7,978,217	103,777,258	181,786,286
7	Aegon USA Inc	57,565,687	71,497,871	23,069,471	0	152,133,029
8	Household Ins Group	41,039,573	64,094,160	28,504,325	5,672,814	139,310,872
9	Berkshire-Hathaway	0	35,499,567	73,400,279	694,757	109,594,603
10	Minnesota Life Ins Group	39,469,704	64,156,999	0	0	103,626,703
11	Aon Corp	39,796,832	49,495,910	3,498,808	6,261,314	99,052,864
12	American National Group	40,460,279	520,136	651,093	50,262,373	91,893,881
13	Central States Group	49,650,824	30,324,962	0	0	79,975,786
14	Life of the South	46,251,652	32,006,451	0	0	78,258,103
15	Zurich Ins Group	34,152,803	32,798,318	0	0	66,951,121
16	J M Family Enterprises	33,410,307	31,624,385	0	0	65,034,692
17	Motors Ins Corp	(186)	0	0	53,738,558	53,738,372
18	Service Life Group	25,901,875	18,783,599	0	0	44,685,474
19	Guarantee Trust	18,943,377	22,477,166	0	0	41,420,543
20	American United Life	22,387,942	18,649,170	0	0	41,037,112
21	Ace Ltd	0	0	0	40,473,813	40,473,813
22	Citigroup	(16,410,479)	32,173,162	8,554,975	12,843,794	37,161,452
23	Enterprise Financial	12,653,854	12,665,462	0	0	25,319,316
24	Cardif	9,739,511	12,715,553	143,540	0	22,598,604
25	Wells Fargo	1,686,329	12,914,389	4,987,567	0	19,588,285
26	Geneve Holdings Group	7,745,201	11,425,901	0	0	19,171,102
27	LDS Group	11,084,089	5,252,811	0	0	16,336,900
28	American Modern Home Group	7,162,337	8,964,561	0	0	16,126,898
29	Plateau Group	9,550,093	4,294,147	13,936	1,805,886	15,664,062
30	Amerco	7,141,680	8,376,408	0	0	15,518,088

Credit Life Insurance Prima Facie Premium Rate History Single Premium Prima Facie Rate ($/$100/year) at End of Calendar Year							
State	1984 Prem Rate	1998 Prem Rate	1999 Prem Rate	2000 Prem Rate	2001 Prem Rate	2002 Prem Rate	2003 Prem Rate
Alabama	$1.00	$0.80	$0.80	$0.80	$0.80	$0.80	$0.80
Alaska	0.60	0.49	0.49	0.49	0.49	0.37	0.37
Arizona	0.44	0.44	0.44	0.44	0.44	0.30	0.30
Arkansas	0.75	0.65	0.65	0.65	0.65	0.65	0.65
California	0.40	0.40	0.42	0.42	0.30	0.33	0.33
Colorado	0.70	0.52	0.52	0.52	0.52	0.38	0.38
Connecticut	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Delaware	0.65	0.65	0.65	0.65	0.65	0.65	0.65
DC	0.49	0.49	0.49	0.49	0.49	0.49	0.49
Florida	0.60	0.50	0.50	0.50	0.50	0.44	0.44
Georgia	0.75	0.45	0.45	0.45	0.45	0.45	0.45
Hawaii	0.60	0.40	0.40	0.40	0.40	0.40	0.40
Idaho	0.60	0.54	0.54	0.54	0.54	0.54	0.54
Illinois	0.65	0.47	0.47	0.47	0.47	0.47	0.47
Indiana	0.65	0.65	0.65	0.65	0.65	0.44	0.44
Iowa	0.65	0.47	0.47	0.47	0.45	0.45	0.45
Kansas	0.65	0.65	0.65	0.65	0.65	0.65	0.65
Kentucky	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Louisiana	1.00	0.90	0.80	0.80	0.80	0.80	0.80
Maine	0.67	0.32	0.30	0.30	0.30	0.30	0.30
Maryland	0.56	0.56	0.56	0.56	0.43	0.43	0.43
Massachusetts	0.50	0.45	0.45	0.45	0.45	0.45	0.45
Michigan	0.60	0.48	0.48	0.48	0.48	0.48	0.48
Minnesota	0.60	0.40	0.40	0.40	0.40	0.40	0.40
Mississippi	0.90	0.80	0.80	0.80	0.80	0.80	0.80
Missouri	0.60	0.55	0.55	0.55	0.55	0.55	0.55
Montana	0.60	0.52	0.52	0.52	0.52	0.52	0.52
Nebraska	0.64	0.55	0.55	0.55	0.55	0.55	0.55
Nevada	0.65	0.65	0.65	0.65	0.65	0.65	0.65
New Hampshire	0.42	0.42	0.42	0.42	0.42	0.42	0.42
New Jersey	0.44	0.40	0.40	0.40	0.40	0.40	0.40
New Mexico	0.65	0.52	0.52	0.52	0.52	0.47	0.47
New York	0.39	0.39	0.39	0.39	0.39	0.39	0.39
North Carolina	0.80	0.50	0.50	0.50	0.50	0.50	0.50
North Dakota	0.75	0.40	0.40	0.40	0.40	0.40	0.40
Ohio	0.55	0.50	0.50	0.50	0.50	0.42	0.42
Oklahoma	0.85	0.68	0.68	0.68	0.68	0.68	0.68
Oregon	0.55	0.42	0.42	0.42	0.42	0.42	0.42
Pennsylvania	0.50	0.45	0.45	0.45	0.45	0.45	0.45
Rhode Island	0.46	0.46	0.46	0.46	0.46	0.46	0.46
South Carolina	1.00	0.65	0.65	0.65	0.57	0.55	0.55
South Dakota	0.60	0.60	0.60	0.56	0.56	0.56	0.56
Tennessee	0.66	0.66	0.66	0.66	0.66	0.66	0.66
Texas	0.50	0.36	0.36	0.29	0.29	0.30	0.30
Utah	0.49	0.42	0.42	0.42	0.42	0.42	0.42
Vermont	0.36	0.36	0.35	0.35	0.35	0.35	0.35
Virginia	0.55	0.39	0.39	0.39	0.38	0.38	0.38
Washington	0.60	0.60	0.60	0.60	0.60	0.60	0.60
West Virginia	0.65	0.65	0.65	0.65	0.65	0.65	0.65
Wisconsin	0.40	0.39	0.39	0.37	0.37	0.37	0.37
Wyoming	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Countrywide Avg.	0.62	0.52	0.52	0.51	0.50	0.50	0.50

Countrywide Avg. rates are based on the average prima facie rate in the year and weighted by Net Written Premiums. 1984 rates weighted by 1989 net written premiums. 2001-2002 rates weighted by 2001 net written premiums. All other rates are weighted by the net written premiums from that year. Different rates may be appropriate for rerating states such as MD, VT, ME, NY, and RI. Rates at a representative term should be considered for MOB states such as AK, CA, MA, ME, MN, NJ, NY, OH, OR, PA, RI, UT, VT, VA. Different rates for class of business should be considered in CA, MA, NH, and other states.

TX, WA have rate changes scheduled for 2005.

Credit Disability Insurance 14-Day Retroactive Prima Facie Rate History Single Premium Prima Facie Rate ($/$100) at End of Calendar Year for 12-Month Term							
State	1984 Prem Rate	1998 Prem Rate	1999 Prem Rate	2000 Prem Rate	2001 Prem Rate	2002 Prem Rate	2003 Prem Rate
Alabama	$2.20	$2.70	$2.70	$2.70	$2.70	$2.70	$2.70
Alaska	2.20	1.43	1.43	1.43	1.53	1.53	1.51
Arizona	1.82	1.82	1.82	1.82	1.82	1.82	1.66
Arkansas	2.39	2.39	2.39	2.39	2.39	2.39	2.39
California	2.43	2.43	2.43	2.43	1.59	1.59	1.59
Colorado	2.20	1.98	1.98	1.98	1.98	1.78	1.78
Connecticut	2.26	2.26	2.26	2.26	2.26	2.26	2.26
Delaware	2.20	2.20	2.20	2.20	2.20	2.20	2.20
DC	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R
Florida	2.20	1.76	1.76	1.76	1.76	1.76	1.58
Georgia	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Hawaii	2.61	1.75	1.75	1.75	1.75	1.75	1.75
Idaho	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Illinois	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Indiana	2.20	2.20	2.20	2.20	2.20	2.20	2.04
Iowa	2.20	1.89	1.89	1.89	1.89	1.81	1.81
Kansas	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Kentucky	2.69	2.69	2.69	2.69	2.69	2.69	2.69
Louisiana	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Maine	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R
Maryland	2.00	2.00	2.00	2.00	1.56	1.56	1.56
Massachusetts	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R
Michigan	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Minnesota	2.61	2.61	2.61	2.61	2.61	2.61	2.61
Mississippi	2.20	3.00	3.00	3.00	3.00	3.00	3.00
Missouri	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Montana	2.20	2.21	2.21	2.21	2.21	2.21	2.21
Nebraska	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Nevada	2.20	2.20	2.20	2.20	2.20	2.20	2.20
New Hampshire	1.90	2.21	2.21	1.76	1.76	1.76	1.76
New Jersey	2.00	1.90	1.90	1.90	1.90	1.90	1.71
New Mexico	2.35	1.70	1.70	1.70	1.70	1.53	1.53
New York	3.15	3.15	3.15	3.15	3.15	3.15	3.15
North Carolina	2.42	2.10	2.10	2.10	2.10	2.10	2.10
North Dakota	2.61	1.88	1.88	1.88	1.88	1.88	1.88
Ohio	2.40	2.47	2.47	2.47	2.02	2.02	2.02
Oklahoma	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Oregon	2.65	1.95	1.95	1.79	1.79	1.79	1.79
Pennsylvania	2.13	2.43	2.43	2.43	2.43	2.43	2.43
Rhode Island	2.74	2.74	2.74	2.74	2.74	2.74	2.74
South Carolina	2.20	1.70	1.70	1.70	1.70	1.70	1.70
South Dakota	1.98	1.98	1.98	1.96	1.96	1.96	1.96
Tennessee	2.39	2.39	2.39	2.39	2.39	2.39	2.39
Texas	2.23	2.23	2.23	1.94	1.94	1.94	1.88
Utah	1.84	1.84	1.84	1.84	1.84	1.84	1.84
Vermont	2.01	2.01	2.01	2.01	2.01	2.01	2.01
Virginia	2.20	2.41	2.41	2.41	2.53	2.53	2.53
Washington	2.20	2.20	2.20	2.20	2.20	2.20	2.20
West Virginia	2.30	2.30	2.30	2.30	2.30	2.30	2.30
Wisconsin	2.23	1.96	1.96	1.67	1.67	1.67	1.55
Wyoming	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Countrywide Avg.	2.28	2.23	2.24	2.21	2.21	2.13	2.11

Countrywide Avg. rates are based on the average prima facie rate in the year and weighted by net written premiums. 1984 rates weighted by 1989 net written premiums. 2001-2002 rates weighted by 2001 net written premiums. All other rates are weighted by the net written premiums from that year. Different rates may be appropriate for rerating states such as MD, ME, MN, NY, RI and VT. Different rates for class of business should be considered in CA, MA, NH, and other states. VA did not have prima facie rates before 1993.

TX, WA have rate changes scheduled for 2005

Credit Life Insurance "Single Premium" Claim Cost History in $/$100/year (1987-2003)								
State	1987	1997	1998	1999	2000	2001	2002	2003
Alabama	$0.23	$0.28	$0.30	$0.29	$0.30	$0.26	$0.26	$0.30
Alaska	0.21	0.18	0.17	0.14	0.18	0.20	0.14	0.19
Arizona	0.22	0.22	0.22	0.18	0.22	0.20	0.14	0.14
Arkansas	0.26	0.24	0.20	0.22	0.25	0.23	0.23	0.20
California	0.20	0.20	0.20	0.19	0.17	0.14	0.15	0.16
Colorado	0.20	0.16	0.15	0.17	0.16	0.14	0.15	0.13
Connecticut	0.16	0.19	0.20	0.17	0.18	0.18	0.17	0.17
Delaware	0.25	0.31	0.33	0.26	0.22	0.28	0.24	0.34
DC	0.30	0.25	0.21	0.31	0.16	0.23	0.20	0.23
Florida	0.26	0.24	0.24	0.24	0.25	0.25	0.19	0.23
Georgia	0.21	0.22	0.22	0.22	0.23	0.23	0.23	0.24
Hawaii	0.17	0.19	0.18	0.18	0.20	0.18	0.13	0.14
Idaho	0.21	0.21	0.18	0.18	0.18	0.17	0.17	0.17
Illinois	0.23	0.18	0.19	0.18	0.17	0.17	0.19	0.20
Indiana	0.23	0.20	0.21	0.20	0.22	0.21	0.13	0.18
Iowa	0.23	0.16	0.13	0.16	0.18	0.15	0.14	0.18
Kansas	0.19	0.20	0.18	0.21	0.18	0.21	0.20	0.21
Kentucky	0.19	0.16	0.19	0.18	0.16	0.19	0.20	0.16
Louisiana	0.25	0.23	0.21	0.21	0.19	0.22	0.21	0.20
Maine	0.43	0.18	0.18	0.15	0.17	0.17	0.17	0.14
Maryland	0.25	0.25	0.27	0.25	0.27	0.22	0.23	0.23
Massachusetts	0.15	0.17	0.16	0.16	0.14	0.15	0.14	0.15
Michigan	0.21	0.19	0.20	0.20	0.19	0.19	0.21	0.19
Minnesota	0.16	0.15	0.15	0.15	0.15	0.14	0.15	0.17
Mississippi	0.22	0.22	0.24	0.23	0.26	0.29	0.22	0.26
Missouri	0.21	0.26	0.23	0.26	0.23	0.23	0.26	0.26
Montana	0.17	0.20	0.17	0.19	0.20	0.19	0.19	0.21
Nebraska	0.22	0.16	0.17	0.15	0.16	0.14	0.15	0.17
Nevada	0.24	0.25	0.25	0.25	0.25	0.24	0.21	0.22
New Hampshire	0.14	0.16	0.14	0.15	0.14	0.13	0.15	0.16
New Jersey	0.22	0.21	0.22	0.20	0.20	0.21	0.20	0.19
New Mexico	0.17	0.18	0.14	0.17	0.17	0.17	0.19	0.18
New York	0.26	0.25	0.25	0.28	0.21	0.22	0.22	0.20
North Carolina	0.18	0.17	0.20	0.20	0.19	0.22	0.21	0.22
North Dakota	0.22	0.13	0.12	0.13	0.10	0.09	0.13	0.12
Ohio	0.23	0.20	0.22	0.20	0.21	0.21	0.19	0.22
Oklahoma	0.25	0.28	0.26	0.27	0.27	0.22	0.26	0.22
Oregon	0.25	0.22	0.21	0.23	0.21	0.21	0.21	0.22
Pennsylvania	0.29	0.24	0.23	0.21	0.24	0.21	0.22	0.24
Rhode Island	0.18	0.23	0.19	0.25	0.21	0.22	0.22	0.20
South Carolina	0.22	0.23	0.25	0.25	0.23	0.22	0.23	0.24
South Dakota	0.19	0.23	0.22	0.23	0.22	0.22	0.17	0.20
Tennessee	0.21	0.22	0.24	0.24	0.24	0.25	0.25	0.27
Texas	0.16	0.14	0.13	0.13	0.12	0.12	0.13	0.12
Utah	0.18	0.15	0.16	0.15	0.17	0.13	0.15	0.16
Vermont	0.14	0.17	0.22	0.18	0.15	0.14	0.18	0.15
Virginia	0.20	0.21	0.23	0.23	0.25	0.19	0.22	0.22
Washington	0.23	0.26	0.28	0.28	0.28	0.28	0.25	0.31
West Virginia	0.26	0.22	0.23	0.25	0.23	0.20	0.26	0.25
Wisconsin	0.17	0.15	0.15	0.14	0.14	0.16	0.16	0.16
Wyoming	0.19	0.23	0.19	0.21	0.22	0.21	0.21	0.20
Countrywide Average	0.23	0.21	0.21	0.21	0.21	0.20	0.20	0.21

Five Year Average	
State	1999-2003
North Dakota	0.11
Texas	0.12
New Hampshire	0.14
New Hampshire	0.15
Massachusetts	0.15
Colorado	0.15
Wisconsin	0.15
Minnesota	0.15
Nebraska	0.15
Utah	0.15
Maine	0.16
Vermont	0.16
Iowa	0.16
California	0.16
Hawaii	0.16
Alaska	0.17
Connecticut	0.17
New Mexico	0.18
Idaho	0.18
Kentucky	0.18
Illinois	0.18
Indiana	0.19
Montana	0.20
Michigan	0.20
New Jersey	0.20
Kansas	0.20
Louisiana	0.20
Ohio	0.21
North Carolina	0.21
Wyoming	0.21
South Dakota	0.21
Oregon	0.22
Rhode Island	0.22
Virginia	0.22
Pennsylvania	0.22
DC	0.22
New York	0.22
Arkansas	0.22
Georgia	0.23
South Carolina	0.23
Florida	0.23
Nevada	0.24
West Virginia	0.24
Maryland	0.24
Oklahoma	0.25
Mississippi	0.25
Missouri	0.25
Tennessee	0.25
Delaware	0.27
Washington	0.28
Alabama	0.28
Countrywide Average	0.21

The Countrywide Average is weighted by net written premiums for the year.

Credit Disability Insurance 14R Coverage "Single Premium" Claim Cost History in $/$100/12 Months (1987-2003)

State	1987	1997	1998	1999	2000	2001	2002	2003
Alabama	$1.04	$1.40	$1.38	$1.30	$1.35	$1.43	$1.43	$1.35
Alaska	0.73	0.56	0.46	0.43	0.59	0.69	0.63	0.54
Arizona	0.73	0.66	0.56	0.56	0.62	0.69	0.67	0.66
Arkansas	1.34	1.17	1.17	1.03	0.98	1.24	1.31	1.20
California	1.19	1.00	1.00	0.97	0.97	0.83	0.83	0.76
Colorado	0.98	0.79	0.73	0.71	0.61	0.73	0.68	0.64
Connecticut	1.33	1.11	0.95	0.75	0.93	0.91	0.95	0.90
Delaware	1.33	1.06	0.88	0.70	1.06	0.92	1.17	1.01
DC	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R
Florida	0.71	0.77	0.72	0.70	0.69	0.72	0.81	0.70
Georgia	0.99	0.86	0.79	0.77	0.79	0.84	0.84	0.73
Hawaii	0.87	1.02	0.84	0.61	0.82	0.82	0.86	0.75
Idaho	1.23	1.01	0.88	0.86	1.03	1.12	1.03	0.95
Illinois	1.14	0.88	0.88	0.81	0.81	0.95	0.86	0.77
Indiana	1.28	1.01	1.08	0.95	0.99	1.10	0.99	0.94
Iowa	0.93	0.81	0.74	0.74	0.79	0.93	0.78	0.81
Kansas	1.04	0.95	0.75	0.75	0.75	0.90	0.86	0.75
Kentucky	1.25	1.21	1.26	1.05	1.16	1.32	1.37	1.21
Louisiana	1.18	0.92	0.90	0.92	0.97	0.88	0.86	1.01
Maine	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R
Maryland	0.96	0.92	0.92	0.88	0.84	0.84	0.83	0.92
Massachusetts	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R	No 14R
Michigan	1.37	1.25	1.08	1.12	1.17	1.30	1.17	1.06
Minnesota	0.95	0.76	0.76	0.78	0.84	0.94	0.84	0.76
Mississippi	1.19	1.02	0.99	1.11	1.20	1.41	1.35	1.26
Missouri	0.97	0.95	0.88	0.95	0.99	1.08	0.99	0.95
Montana	1.40	1.08	0.97	0.86	1.13	1.11	1.17	1.17
Nebraska	0.91	0.84	0.72	0.68	0.86	0.78	0.78	0.78
Nevada	0.75	0.73	0.62	0.68	0.62	0.75	0.64	0.55
New Hampshire	1.13	1.11	1.08	0.86	0.76	0.86	0.74	0.83
New Jersey	1.13	1.22	1.22	1.22	1.50	1.31	1.10	1.15
New Mexico	1.04	0.91	0.66	0.60	0.70	0.83	0.78	0.80
New York	1.44	1.86	1.64	1.54	1.39	1.58	1.48	1.51
North Carolina	0.90	1.09	0.97	0.95	1.07	1.09	1.16	1.13
North Dakota	0.79	0.75	0.60	0.51	0.62	0.75	0.75	0.79
Ohio	1.73	1.16	1.09	1.09	1.21	1.01	1.19	1.03
Oklahoma	1.03	0.84	0.88	0.86	0.79	0.90	1.03	0.64
Oregon	1.39	0.94	0.86	0.76	0.82	1.15	1.07	0.90
Pennsylvania	1.54	1.55	1.53	1.51	1.56	1.63	1.60	1.68
Rhode Island	1.90	1.59	1.15	0.96	1.42	1.45	1.34	1.10
South Carolina	1.15	1.00	1.02	0.99	1.09	1.09	1.05	1.19
South Dakota	0.80	0.59	0.59	0.53	0.67	0.57	0.55	0.59
Tennessee	1.07	1.08	1.05	1.10	1.15	1.27	1.31	1.29
Texas	1.17	1.05	1.00	0.96	0.95	0.93	0.95	0.90
Utah	0.88	0.61	0.52	0.52	0.59	0.68	0.66	0.57
Vermont	1.08	1.07	1.07	0.96	0.88	1.07	1.13	0.90
Virginia	0.99	1.51	1.47	1.47	1.42	1.54	1.49	1.64
Washington	1.11	1.03	1.06	0.90	0.99	1.10	1.06	0.95
West Virginia	2.57	2.00	2.28	2.44	2.32	2.28	2.60	2.71
Wisconsin	1.13	0.94	0.94	0.86	0.99	0.95	0.99	0.88
Wyoming	1.08	0.99	1.25	0.84	0.86	1.01	1.08	1.19
Countrywide Average	1.18	1.07	1.07	0.99	1.04	1.11	1.07	1.01

The Countrywide Average is weighted by net written premiums for the year.

Five Year Average

State	1999-2003
Alaska	$0.57
South Dakota	$0.58
Utah	$0.60
Arizona	$0.64
Nevada	$0.65
Colorado	$0.68
North Dakota	$0.68
Florida	$0.72
New Mexico	$0.74
Hawaii	$0.77
Nebraska	$0.78
Georgia	$0.79
Kansas	$0.80
Iowa	$0.81
New Hampshire	$0.81
Minnesota	$0.83
Illinois	$0.84
Oklahoma	$0.84
Maryland	$0.86
California	$0.87
Connecticut	$0.89
Louisiana	$0.93
Wisconsin	$0.93
Texas	$0.94
Oregon	$0.94
Delaware	$0.97
Vermont	$0.99
Missouri	$0.99
Indiana	$0.99
Wyoming	$0.99
Idaho	$1.00
Washington	$1.00
North Carolina	$1.08
South Carolina	$1.08
Montana	$1.09
Ohio	$1.11
Arkansas	$1.15
Michigan	$1.16
Kentucky	$1.22
Tennessee	$1.22
Rhode Island	$1.25
New Jersey	$1.26
Mississippi	$1.27
Alabama	$1.37
New York	$1.50
Virginia	$1.51
Pennsylvania	$1.59
West Virginia	$2.47
DC	No 14R
Maine	No 14R
Massachusetts	No 14R
Countrywide Average	$1.04

Overview of Credit Property Insurance

Single Premium Credit Property Insurance on Installment Credit

When purchasing a consumer product, such as a sofa or a television, a buyer often pays for the purchase with installment credit. It is common for the sofa or television to be the collateral that secures the credit. In other installment credit situations, borrowers pledge personal property in order to collateralize the credit. In such instances, the credit proceeds are used for some purpose other than the purchase of the collateral.

In either case, the pledged property represents collateral. Consequently, the creditor has a legitimate interest in protecting the value of the property. At a minimum, the creditor wants the property's actual cash value to exceed the borrower's credit obligation at each point in time during the term of the credit. This goal cannot be achieved if the property is damaged, destroyed, or stolen, unless it is insured.

Credit laws permit creditors to require that the borrower insure the collateral against physical loss. The borrower can comply with this insurance requirement by adding a loss payee endorsement to an existing homeowners or tenants insurance policy. Adding such an endorsement can be a cumbersome process, and the borrower may not be fully protected. Homeowners policies contain deductibles and exclusions for common risks, such as flood and hurricane. Standard homeowners coverage does not reimburse losses on a replacement cost basis. Moreover, many borrowers do not have homeowners or tenants insurance. The need for first dollar, primary insurance coverage of the collateral used in securing credit obligations can be conveniently satisfied with credit property insurance.

Credit property insurance provides protection for the creditor and the borrower in the event of a covered loss occurrence. A covered loss occurrence is defined by the credit property insurance policy, but, in general, protection is provided against perils such as fire, collision, and theft. Some policies provide a benefit up to the outstanding balance of the credit, while others provide benefits up to the replacement value of the damaged good.

Retailers sell this insurance product at the time that appliances, electronics, and other consumer products are purchased and by finance companies in conjunction with non-real-estate secured credit. About 25 independent credit-related insurers offer this specialized insurance product for these credit obligations. Several producer-affiliated, direct-writing insurers offer similar programs.

Credit Property Insurance on Open-End Credit

Credit property insurance on open-end credit is monthly premium, monthly renewable property insurance, purchased in conjunction with open-end credit, insuring consumer products that are bought (or pledged as collateral) against specified loss occurrences causing damage to, or disappearance of, the property. The benefit is repair or replacement of the property.

Revolving charge cards offered by retailers, such as furniture or department stores, are the primary vehicles for this coverage. In a typical program, credit property insurance is sold as a part of a package of life, disability, and involuntary unemployment coverage. Most credit cards do not offer this coverage, since many of those purchases do not involve tangible consumer products.

If a consumer uses a revolving charge card to purchase a product from a retailer, insurance protection is usually provided for a stated period, such as 36 months from the date of purchase. A claim will be paid if any of 19 standard perils occur, including burglary and damage by fire. At the insurer's option, the damaged consumer product is repaired or replaced. Insurance protection is from the first dollar or is subject to a small deductible, such as $25.

About 25 independent credit insurers offer the product to unaffiliated retailers or finance companies. In other cases, the credit insurer is an affiliated corporation owned by a retailer or a finance company.

Only a few states have promulgated prima facie rates for MOB (monthly outstanding benefit) credit property insurance. In most states, the insurer must file a rate and provide actuarial justification that the rate is reasonable. A premium rate of $0.29/$100/month is common, except for jewelers, where a rate of $0.46/$100/month is common.

Creditor-Placed Programs

Most closed-end installment credit is secured by collateral. If the borrower defaults on the credit, the creditor has the right, via the credit obligation, to seize the collateral and sell it on the open market. The proceeds of the sale are applied to reduce the balance of the defaulted credit. Creditors extending installment credit have an economic interest in protecting the collateral so that it retains its market value. Credit obligations generally require the borrower to insure the collateral against physical damage caused by accident, fire, natural disaster, and other events, such as theft. This requirement ensures that if the collateral becomes impaired, there will be sufficient insurance proceeds to repair or replace it. Proof of insurance must be presented for the credit obligation to be consummated. The insurance plays an important role in today's economy. Without it, creditors would not accept the collateral that secures most of their credit, such as automobiles, boats, or homes. Without this security, many credit extensions would not be made, and economic activity would be sharply reduced.

For non-titled consumer products, such as a television or VCR pledged as collateral, the insurance requirement can be fulfilled by a loss payee endorsement to an existing homeowners policy or a tenants policy. The retailer or creditor may offer credit property insurance as one convenient alternative to fulfill the insurance requirement. For titled property, such as an automobile or a home, the amount and term of the credit result in a cost for credit property insurance that overcomes the convenience of the product. For automobile credit, the borrower must provide proof of collision and comprehensive insurance; standard liability insurance is not acceptable, since it only protects against physical damage to the other party and bodily injury. For real-estate-secured credit, the borrower must present proof of homeowner's insurance.

Sometimes borrowers fail to maintain the insurance on the titled collateral securing their credit. Creditors have three options relating to this contingency:

- The creditor can absorb the risk and reflect the loss cost in higher interest rates.
- The creditor can purchase insurance covering all borrowers who fail to maintain adequate insurance, generally called **blanket insurance**, and pass a relatively small charge on to all borrowers.
- The creditor can canvass its credit portfolio and place comparable insurance, generally called **collateral protection insurance (CPI)**, on the few borrowers who allow their insurance to lapse. Since the creditor makes the decision to put the insurance in place, it is referred to as **creditor-placed insurance**.

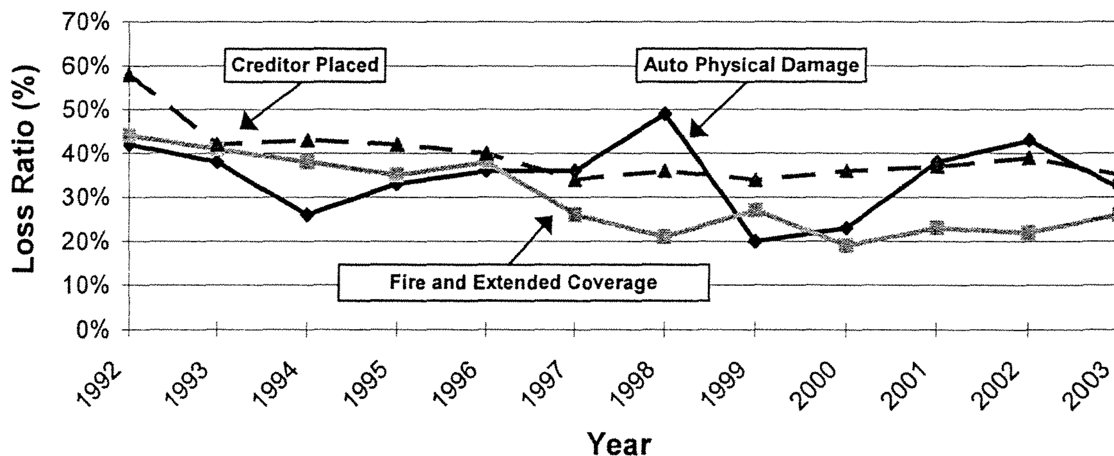
Creditor-placed insurance is property insurance purchased unilaterally by the creditor at some point subsequent to the date of the credit obligation. The creditor is named as the insured. CPI provides coverage against loss or damage to collateralized property as a result of fire, theft, collision, or other occurrence that either impairs a creditor's interest or adversely affects the value of collateral. CPI is purchased according to the terms of the credit obligation when the borrower fails to provide the required physical damage insurance. Cost of the coverage is charged to the borrower.

Credit Property Insurance: Countrywide Data				
Earned Premiums ($)				
Year	Auto Physical Damage	Fire and Extended	Creditor Placed	Total (Excludes Other)
2003	131,848,865	337,928,998	996,067,370	1,465,845,233
2002	136,530,607	324,681,240	707,003,464	1,168,215,311
2001	94,147,827	380,292,985	578,540,149	1,052,980,961
2000	87,072,115	347,953,437	448,306,061	883,331,613
1999	90,323,577	376,681,891	443,061,920	910,067,388
1998	83,726,949	385,389,006	399,098,935	868,214,890
1997	119,600,247	399,039,517	370,170,318	888,810,082
1996	158,328,165	340,393,341	373,897,293	872,618,799
1995	168,445,006	445,432,916	345,671,681	959,549,603

Credit Property Insurers

2003 Direct Written (G-R) Premium by Corporate Group

Rank	Group Name	Primary Credit Insurers	Total Premium (Excludes Other)	Market Share
1	Assurant Group	American Bankers Ins. Co. of FL American Security Ins. Co.	713,424,790	46.5%
2	Countrywide Group	Balboa Ins. Co.	437,338,884	28.5%
3	CUNA Mutual Group	Cumis Ins. Society Inc.	84,793,383	5.5%
4	Allstate Ins Group	Allstate Ins. Co. American Heritage Life Ins. Co. First Colonial Ins. Co.	62,132,870	4.1%
5	Motors Ins Corp	MIC P & C Ins.	53,738,558	3.5%
6	American National Group	American National Ins. Co. American National Property & Cas. Co.	50,262,373	3.3%
7	Protective Ins Group	Lyndon Property Ins. Co.	38,368,091	2.5%
8	Ace LTD	Ace American Ins. Co.	36,129,326	2.4%
9	American Intl Group	Yosemite Ins. Co. American General Indemnity Co.	30,194,119	2.0%
10	Citigroup	Triton Ins. Co. (VGIC) Associates Financial Life Ins. Co.	12,843,794	0.8%
11	Household Ins Group	Household Ins. Co.	5,672,814	0.4%
12	Spartan Property Ins Co	Spartan Property Ins Co.	4,999,810	0.3%
13	National Gen Ins Cos	Gulf Guaranty Life Ins. Co.	1,461,942	0.1%
14	Delta Group	Delta Fire & Cas. Ins Co.	866,492	0.1%
15	Columbia Ins Group	Columbia Ins Group	304,423	0.0%
16	TX State National	State National Ins. Co. Inc. State National Life Ins. Co.	154,015	0.0%
17	Credit Suisse Group	Southern County Mutual Ins. Co.	30,725	0.0%
18	White Mountains Group	American Centennial Ins. Co. Peninsula Ins. Co.	1,551	0.0%



2003 Credit Property Insurance Experience by State (Excludes "Other")

	Total (Excludes "Other")			Auto Physical Damage		Fire and Extended		Creditor Placed		
State	Earned Premiums In 1000s $	Percent of Total %	Loss Ratio %	Earned Premiums In 1000s $	Loss Ratio %	Earned Premiums In 1000s $	Loss Ratio %	Earned Premiums In 1000s $	Loss Ratio %	State
Alabama	27,225	1.9	44	2,983	4	8,539	62	15,703	42	AL
Alaska	4,355	0.3	24	307	58	281	8	3,767	22	AK
Arizona	27,942	1.9	40	1,332	63	4,920	31	21,689	41	AZ
Arkansas	10,941	0.7	37	930	47	4,386	30	5,626	40	AR
California	252,007	17.2	37	7,139	51	27,747	27	217,121	38	CA
Colorado	21,586	1.5	31	883	34	4,664	36	16,039	29	CO
Connecticut	5,907	0.4	23	430	22	550	(7)	4,927	27	CT
Delaware	7,820	0.5	52	3,041	82	1,512	29	3,267	35	DE
DC	3,034	0.2	27	125	61	195	17	2,714	26	DC
Florida	119,381	8.1	22	8,020	38	9,270	23	102,091	21	FL
Georgia	86,119	5.9	14	35,815	8	28,449	14	21,855	25	GA
Hawaii	4,331	0.3	23	47	34	1,231	13	3,052	27	HI
Idaho	4,139	0.3	31	121	27	853	18	3,165	35	ID
Illinois	42,195	2.9	40	3,727	56	7,246	23	31,222	42	IL
Indiana	25,639	1.7	34	1,152	44	3,859	18	20,628	37	IN
Iowa	7,342	0.5	30	311	79	1,170	17	5,861	30	IA
Kansas	9,390	0.6	32	346	46	2,398	23	6,646	35	KS
Kentucky	23,832	1.6	36	1,477	65	12,826	30	9,529	38	KY
Louisiana	37,028	2.5	24	4,367	34	20,353	13	12,308	37	LA
Maine	2,098	0.1	34	98	33	450	39	1,550	33	ME
Maryland	21,499	1.5	35	1,448	52	6,557	14	13,494	44	MD
Massachusetts	7,374	0.5	28	29	76	1,445	35	5,899	26	MA
Michigan	53,553	3.7	40	3,889	57	12,048	29	37,616	42	MI
Minnesota	12,451	0.8	35	521	36	1,241	41	10,689	34	MN
Mississippi	18,554	1.3	41	962	28	5,884	38	11,708	43	MS
Missouri	21,829	1.5	43	2,450	58	4,002	33	15,377	43	MO
Montana	3,507	0.2	31	184	41	791	19	2,531	34	MT
Nebraska	4,915	0.3	37	168	43	981	12	3,766	43	NE
Nevada	11,037	0.8	26	414	46	3,385	17	7,237	29	NV
New Hampshire	2,758	0.2	30	160	39	851	23	1,747	32	NH
New Jersey	29,706	2.0	30	1,283	50	5,666	12	22,758	33	NJ
New Mexico	14,957	1.0	32	1,307	56	5,205	29	8,445	30	NM
New York	41,315	2.8	32	1,270	37	9,496	12	30,549	38	NY
North Carolina	74,237	5.1	32	9,281	24	34,013	36	30,944	31	NC
North Dakota	1,548	0.1	24	128	34	333	16	1,087	25	ND
Ohio	45,588	3.1	35	2,368	37	11,669	12	31,551	43	OH
Oklahoma	13,832	0.9	37	878	64	4,985	38	7,969	33	OK
Oregon	8,977	0.6	20	340	28	2,010	12	6,627	23	OR
Pennsylvania	49,786	3.4	34	1,711	49	11,595	19	36,481	38	PA
Puerto Rico	1,147	0.1	28	1,146	N/A	0	(198)	0	0	PR
Rhode Island	1,722	0.1	8	80	78	413	8	1,230	4	RI
South Carolina	52,073	3.6	21	6,338	25	23,506	17	22,229	23	SC
South Dakota	2,968	0.2	27	442	35	376	18	2,151	27	SD
Tennessee	40,917	2.8	50	4,518	42	17,430	38	18,969	64	TN
Texas	119,266	8.1	38	14,845	38	14,061	19	90,360	41	TX
Utah	12,691	0.9	9	205	34	1,258	23	11,228	7	UT
Vermont	703	0.0	39	60	50	246	45	397	33	VT
Virginia	23,297	1.6	54	504	20	8,448	81	14,344	39	VA
Washington	26,868	1.8	28	785	35	4,770	15	21,313	31	WA
West Virginia	6,729	0.5	41	268	63	2,771	52	3,690	31	WV
Wisconsin	15,347	1.0	32	1,152	52	1,794	14	12,402	33	WI
Wyoming	1,671	0.1	59	63	36	555	25	1,053	79	WY
Total	**1,465,133**	**100.0**	**33**	**131,848**	**32**	**338,684**	**26**	**994,601**	**35**	**Total**

Data Source: National Association of Insurance Commissioners, by permission. The NAIC does not endorse any analysis or conclusions based upon the use of its data.

GAP

Definitions

GAP insures the excess of the outstanding indebtedness over the primary property insurance benefits that may occur in the event of a total loss to a collateral asset. *Primary property insurance* refers to the underlying P&C insurance policy insuring the property, such as automobile physical damage insurance. GAP can be written on a variety of assets that are used as collateral to secure credit, however, it is most commonly written for automobiles.

GAP may or may not be insurance depending on the state regulations and the contractual relationships. Since its introduction in the mid-1980s, the products and the applicable regulations have been evolving. That evolution is continuing. Because of variations in state credit and insurance regulations, the evolution is proceeding in a haphazard pattern.

Actual Cash Value (ACV) is the market value of an asset at a particular point in time. *Total Loss* is a loss where the cost to repair the property exceeds the ACV. Unrecovered theft is also an example of a total loss.

GAP is a relatively new product; it first appeared around 1985. Industry-wide terminology has not emerged. For this section, the following terminology is used.

GAP waiver refers to the contractual protection purchased by a borrower from the creditor, where the contractual terms of the protection are contained in the credit obligation or in an addendum to the credit obligation.

GAP waiver insurance refers to insurance protection purchased by a borrower from the creditor or from a P&C insurance agent, where the contractual terms of the protection are contained in an insurance policy between the borrower and the P&C insurer.

GAP insurance refers to an insurance policy purchased by the creditor from a P&C insurer that insures the contractual liability assumed by the creditor to its borrowers under GAP waivers.

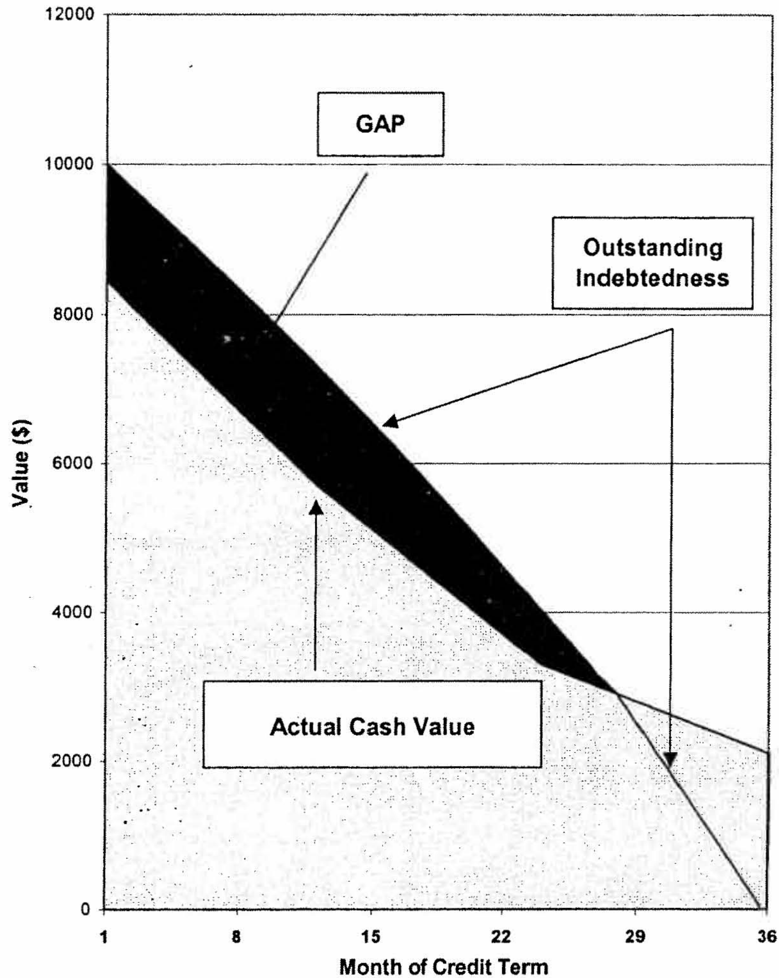
Blanket GAP. Some leasing companies purchase GAP protection for all of their leases and absorb the cost of the product. The protection generally follows the description of GAP waivers in this section, but policies are often tailored to the particular leasing company. This type of GAP is not addressed in the remainder of this section.

Overview

The letters *GAP* may stand for Guaranteed Automobile Protection, or possibly Guaranteed Asset Protection, but those words do not have significant meaning. Several of the early developers called the product TLP, for Total Loss Protection. Many people just consider the letters to stand for the *gap* that occurs between the indebtedness and the value of the primary property insurance benefits.

When an insured loss results in a total loss to the property, the primary property insurance policy usually provides a benefit equal to the ACV. In consumer credit, the outstanding indebtedness often exceeds the ACV of the collateral asset at the time of a total loss. Typically, the outstanding indebtedness and collateral's value decline at different rates. Colloquially, the borrower has "negative equity," the borrower is "under water" or "upside down."

The difference between the indebtedness and the collateral's ACV is the borrower's unprotected exposure—the GAP. If a total loss occurs, the borrower has a contractual obligation to pay the creditor the excess of the indebtedness over the actual cash value.



Policy/Contractual Structure

The intent of GAP products is to ensure that the borrower is fully protected in the event of a total loss. This benefits the borrower and the creditor. Borrowers are often unaware of this exposure. Only a few states require creditors to disclose the exposure (New York in particular).

There are a variety of ways to provide protection. The structure of the contractual arrangement between the borrower, creditor, and insurer will vary with the method chosen.

GAP Waiver. One common structure is a provision in the credit obligation stating that, in the event of a total loss, the borrower's obligation to pay the remaining indebtedness will be discharged after the primary property insurance benefits have been collected by the creditor. Alternately, a waiver or addendum to the credit obligation is issued with a similar statement. The creditor collects a fee for providing the waiver. The contingencies that result in the waiver of any remaining indebtedness are specified in the contractual language. GAP waiver is generally not considered insurance in the majority of states.

The primary problem created by an insurance classification is that the product may be subject to general P&C agent licensing laws. In other situations, it may be advantageous for the protection to be considered insurance. Laws governing retail installment sales and small loans often specify in detail the fees and charges that can be imposed and financed. Some of these state laws only permit specifically itemized fees and charges, a list that rarely includes GAP per se, but it may be classified as "other benefits" under some laws. Most of these laws permit "insurance." The result is that GAP can only be sold in that state if it is classified as insurance.

GAP Waiver Insurance. Authorized P&C insurers may issue GAP waiver insurance to borrowers. The borrower pays a premium and receives a property insurance policy. (Alternatively, a master policy may be issued to a creditor and the borrower may receive a certificate or evidence of insurance.) In the event of a total loss, the insurance provides a benefit equal to 1) the borrower's remaining outstanding indebtedness, less 2) the primary property insurance benefits that have been collected by the creditor. This product is marketed by creditors and by independent P&C insurance agents.

GAP Insurance. A creditor that extends GAP waivers will usually purchase GAP insurance to protect against the potential loss to the creditor under the GAP waivers. Typically, the policy issued to the creditor is some form of contractual liability policy that insures all GAP waivers issued by the creditor.

Other GAP structures exist in the marketplace. The creditor may use an affiliate to provide the GAP insurance, or it may self-insure by retaining all risk associated with the GAP waivers that it issues.

Eligibility for GAP Waiver and GAP Waiver Insurance

Most credit is eligible for GAP waiver and GAP waiver insurance. Eligibility criteria vary on a case-by-case basis. The eligibility criteria are related to the credit, the underlying collateral, and the primary property insurance policy. Typical criteria are:

Maximum credit term. GAP waiver and GAP waiver insurance are usually available only on credit with terms equal to or less than a maximum, such as 72 months.

Maximum amount of credit. GAP waiver and GAP waiver insurance are only available on indebtedness up to a maximum dollar amount, such as $100,000.

Type of property or collateral asset. Certain types or entire classes of collateral assets may be ineligible.

Use of the property. Some property uses are prohibited. For example, property used for commercial purposes may be ineligible.

Credit terms:

The collateral must have acceptable primary property insurance in effect before the GAP waiver or GAP waiver insurance is extended. The primary property insurance deductible may be limited to 1) a certain dollar amount, or 2) a percentage of the purchase price of the collateral.

The GAP protection must be purchased before the product is delivered.

The Insured Event

An insured loss occurs when, after a total loss, the amount of indebtedness at the time of the loss exceeds the benefits paid by the primary property insurance. The loss must be the result of physical damage or unrecovered theft, as defined in the primary property insurance policy covering the collateral. The amount of indebtedness is typically defined as the amount required to completely pay off the credit; however, this definition generally excludes delinquent amounts, including payments past due and accumulated late charges, and the value of items that can be canceled, such as credit-related insurance products and extended service contracts.

The Underlying Credit

Any asset-backed credit, including leases and installment contracts, has the potential for GAP exposure and is a candidate for GAP waiver or GAP waiver insurance.

"Necessity-type" collateral, such as an automobile, creates the strongest need for GAP. When a total loss occurs, the borrower must replace the asset immediately and must relieve the obligation with respect to the credit quickly. Accordingly, the demand for such coverage is relatively high.

Markets and Marketing

Any credit secured by property for which the primary property insurance is limited to the property's ACV has the potential for GAP exposure. Credit markets associated with automobiles, computers, motor homes, boats, and other property purchased with credit comprise a market where the demand for GAP waiver and GAP waiver insurance exists.

Creditors operating in these markets include automobile dealers, banks, leasing companies, credit unions, finance companies, creditors such as those specializing in automobile credit, creditors owned by manufacturers, and creditors owned by dealers, such as office equipment dealers. When one of these creditors extends a GAP waiver, it has a need for GAP insurance.

The Insurers

Independent insurers offer GAP waiver insurance directly to borrowers through unaffiliated creditors, agents, or brokers. Independent insurers also offer various forms of GAP insurance to creditors that have issued GAP waivers.

In addition, insurance companies owned by or affiliated with the creditors provide GAP waiver insurance and GAP insurance. These creditor-affiliated insurers may offer the product to other unaffiliated creditors as well.

The insurers writing GAP waiver insurance and GAP insurance must be authorized property and casualty insurers.

Underwriting Criteria

For the Borrower. Underwriting of the borrower generally involves classification of the risk in terms of the type of asset, classification of the asset within type, and application of other criteria. A determination is made as to whether the collateral asset is eligible and the appropriate rate to charge. For example, the criteria used for automobiles in a certain plan may consider: purchase price of automobile as it relates to MSRP, credit term and interest rate, down payment amount, initial indebtedness, deductible, make and model, new or used, model year and mileage if used, intended primary usage, state (or other geographical consideration), and whether or not the automobile is leased or purchased.

When evaluating intended use, the underwriter will determine if the vehicle will be used for personal or commercial purposes. Commercial use is further scrutinized, such as, "Will the vehicle be used for deliveries?" For other categories of property, the criteria may be completely different.

Once it is determined that the risk is eligible, a rate is calculated. Rate refers to the amount the borrower ultimately pays for GAP waiver. (This may not be the amount the creditor pays for GAP insurance.) The rate may also reflect differences in the criteria. For example, the rate may be higher for certain models of automobiles or may vary with the interest rate or down payment. Rate may vary by type of credit arrangement.

Underwriting criteria vary widely from case to case. For credit extensions under $10,000, there may be very little underwriting criteria or none at all. The rating structure can be equally as broad, such as one rate for all risks. The insurer issuing GAP insurance to the creditor may impose underwriting criteria affecting the GAP waivers as a condition of issuing GAP insurance to the creditor.

For the Creditor. In addition to underwriting applied at the borrower level, underwriting analyses occur at the creditor level. At the creditor level, other criteria are considered, such as the type of creditor, the principal types of assets that the creditor finances, and the loss experience of the creditor as a whole and for various risk classes. The GAP insurer may do such underwriting analyses. Even when the creditor does not purchase GAP insurance, these are valuable criteria for analyzing the creditor's business.

Term of Coverage

For the Borrower. GAP waiver remains in force for the entire term of the corresponding credit, since it is a part of the credit obligation. GAP waiver insurance purchased by a borrower from a P&C agent may insure the entire credit term, or it may have a one-year or two-year term.

For the Creditor. GAP insurance purchased by a creditor to insure its GAP waivers will typically have a term equal to the remaining terms of the corresponding credit.

Benefit Conditions of GAP Waiver and GAP Waiver Insurance

Benefit Provided. The benefit is typically the difference between the insured indebtedness and the benefits paid under the primary property insurance in the event of a total loss. The insured indebtedness is the outstanding insured indebtedness on the date of loss less any delinquent payments, late charges, and insurance refunds. Under most GAP waivers, a total loss is defined to include unrecovered thefts. For an additional fee, some GAP waivers reimburse the primary property insurance policy's deductible, within limits, although this item is not technically part of the definition of the GAP waiver benefit.

Eligibility for Benefits. The following conditions generally must be met before the claimant is eligible to receive benefits under a GAP waiver or GAP waiver insurance:

- A GAP must be established.
- Acceptable proof of loss must be provided, such as a police report.
- The primary property insurance policy covering the asset must be in force at the time of loss. If none is in force, the National Automobile Dealers Association (NADA) retail value may be substituted and deducted in calculating the GAP benefits.
- The claim under the primary property insurance policy must be settled and the benefits paid.

Limits of Liability. Most GAP waivers and GAP insurance waivers have limits on the maximum liability:

- A maximum dollar limit per loss occurrence, such as $25,000
- A limit on the amount of the indebtedness that is included in the benefit calculation, such as 120% of NADA or Black Book value, or 120% of manufacturer's suggested retail price (MSRP)
- If the benefits include reimbursement of the primary property insurance deductible, the reimbursement has a dollar maximum, such as $500.

Exclusions. Exclusions vary on a case-by-case basis; however, losses resulting from the following are usually not covered: war, fraud, use during criminal acts, wear and tear, racing, damage outside the U.S.

Rates

The amount of the GAP exposure changes over the term of the credit and depends on both the rate at which the underlying asset depreciates and the characteristics of the credit at its inception, such as interest rate, down payment, and term. The rate at which the asset depreciates is not known with certainty at the time that coverage is extended. All of these factors, as well as the likelihood of a total loss occurrence, are factored into rate development.

Rates are set by making estimates of the frequency of occurrence and the corresponding severity for different time periods. The development of adequate rates for GAP depends on the ability to accurately forecast frequency and severity of losses for each type of asset covered. For example, all vehicles do not depreciate at equal rates, thus the GAP exposure may vary widely within an asset class, as well as among asset classes.

When GAP waiver is obtained through the creditor, a one-time fee is collected at the inception of the credit. The borrower pays for coverage at the time of credit closing, but the purchase is usually financed. Few states regulate the fee paid by the borrower.

The creditor then pays an insurance premium for GAP insurance that is equal to or less than the fee the borrower paid the creditor. GAP insurance rates and forms usually must be filed with and approved by the insurance department of the state in which the policy is issued.

In the case of GAP waiver insurance issued directly by an insurer to a borrower, the premiums can be 1) single premiums corresponding to a policy term equal to the term of the credit, or 2) periodic premiums for a shorter period of coverage, such as one year.

Financing of the Cost and Regulation Z

As with credit-related insurance products, the borrower wants the cost financed. It is typical for the cost to be added to the amount financed. Most creditors are willing to finance the cost of the product.

In 1995, a class action lawsuit was filed in Illinois (McGee v. Kerr-Hickman Chrysler Plymouth, Inc. and GECC) alleging that failure to include the cost of GAP in the calculation of the annual percentage rate was a violation of Regulation Z. Sale of GAP virtually ceased for installment credit. GAP for leases continued, since leases were governed by Regulation M that appropriately addresses GAP.

The U.S. District Court of the Northern District of Illinois dismissed the lawsuit. The U.S. Court of Appeals affirmed the dismissal in August 1996.

While the lawsuit was progressing, some creditors pressed the Federal Reserve Board to clearly address GAP in Regulation Z. In October 1996, Regulation Z was amended. The cost of GAP can be financed and the cost does not have to be included in the APR if all of the following conditions are met:

- The extension of credit is not conditioned on the purchase of GAP.
- The borrower's purchase of GAP is voluntary, and the voluntary nature is disclosed.
- The cost and the term of coverage are disclosed.
- The borrower signs or initials a request for GAP after receiving the disclosures.

The changes to Regulation Z addressed debt cancellation contracts, but the Federal Reserve Board made it clear that GAP was considered a form of debt cancellation contract, Although this amendment clarified the rules under federal law, state variations exist. State laws may exist or be adopted that are more protective of consumer rights than federal law.

Refunds

Some GAP waivers are non-cancelable, except for a cancellation within 30 days of issue or in the case of repossession. If a GAP waiver is cancelable, the fee refunded is generally equal to the unearned fee at the time of cancellation less a processing fee, such as $35. The unearned fee depends upon the rate at which fees are earned—a rate that differs by asset class and other characteristics. State regulations may mandate refund methods that result in amounts that differ from the unearned fee.

If GAP waiver insurance is canceled, the unearned premium at the time of cancellation is refunded. State regulations may specify the calculation method for the amount to be refunded. If a GAP insurance policy is canceled, the refund is the sum of the refunds that are due on the underlying GAP waivers.

Licensing

When the creditor issues a GAP waiver to a borrower, state regulations determine licensing requirements. At the federal level, such activity is not regulated as insurance and is allowed with proper disclosure. In about one-half of the states, the issuance of GAP waivers is not considered insurance and does not require licensing; however, in some states such activity is considered insurance and licensing may be an issue.

When GAP waiver insurance is sold directly to a borrower, it is classified as inland marine, credit, or miscellaneous insurance. Depending on the state, the soliciting agent may have to be licensed to offer property and casualty insurance. If a creditor purchases GAP insurance through an agent or broker to insure its obligations, the agent or broker must be appropriately licensed.

Available States

GAP waiver or GAP waiver insurance is available in one form or another in most states. GAP insurance is available in most states.

Advantages to the Producer

GAP allows the creditor to maintain customer goodwill and eliminate collection activity and related expenses associated with total losses. When a total loss occurs and a credit obligation remains after the primary property insurance benefits have been paid, the borrower must pay the balance before replacing the asset. Borrowers often do not have the resources to pay the GAP and to replace the asset. Such a situation is bad for the borrower and the creditor.

GAP allows the creditor to provide an additional service to its borrowers. Automobiles, in particular, and other assets often have prices that make it difficult for consumers to afford substantial down payments. Without a significant down payment, GAP protection is often necessary.

GAP insurance allows creditors to effectively manage an insurable risk by transferring the GAP risk to the GAP insurer.

Reserves

Policy Reserves. Under GAP, the policy reserves make provision for payment of future claims that have not yet occurred. Such reserves can be significant, since the coverage is typically for the entire term of the credit, which can be as long as six or seven years. The rate at which the premium earns is based upon the rate at which the exposure to a GAP loss decreases over the term of the credit. This exposure varies widely depending upon asset class, make, and model within asset class, interest rate, down payment, and term of the credit. Since the indebtedness and the ACV decline at different rates, the exposure period may be shorter than the term of the credit, except for any refund liability. The earnings pattern also depends on whether the policy is cancelable or non-cancelable.

For GAP insurance, the policy reserves are the sum of the policy reserves for the individual GAP waivers that are in force.

Loss Reserves. Loss reserves are an estimate of the claims that will be paid on the losses that have already occurred but have not yet been paid. For GAP waiver and GAP waiver insurance, these reserves are incurred but not reported (IBNR) and case reserves. IBNR is an estimate that is usually based upon some indicator of claim activity, such as an *n*-month rolling average of earned fees/premiums or paid claims. Case reserves are typically set for each individual claim after a determination of the GAP that existed at the time of loss. Loss adjustment expenses and loss adjustment expense reserves are small, generally less than 10% of paid claims.

For GAP insurance, the loss reserves and loss adjustment expense reserves are the sum of the comparable reserves for the individual GAP waivers that are in force.

An Introduction to Debt Protection Products

The following material is from the upcoming book, Debt Protection Products, by Gary Fagg and Keith Nelson.
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Chapter One

A Brief History of Debt Protection Products

The Morris Plan Bank of Springfield, Ohio, wrote the first debt cancellation contract. As the story goes, in 1917, the originator of credit life insurance, Arthur J. Morris, visited Springfield, Ohio, and convinced the local business people to enter his franchise program and form a Morris Plan Bank. A few years later, Morris returned and offered them the opportunity to sell an individual credit life insurance policy underwritten by his insurance company, the Morris Plan Insurance Society. They declined, but it triggered a new product idea. The bank began to offer its borrowers the opportunity to pay an extra $1.00 fee on each loan, and, if the borrower died during the one-year term of the debt, the Bank contractually promised to cancel the debt. To keep track of the financial results, the fees were kept in a cigar box in the vault. If a protected borrower died, funds were taken from the cigar box, and the loan was canceled. It became a popular feature, and the cigar box filled to a healthy surplus.

In 1925, a bank examiner became aware of the practice during a routine bank examination and declared, "That's insurance! You cannot do it unless you are an insurance company." The bank management accepted this interpretation and met with the state insurance department, proposing to sell an individual credit life insurance policy similar to the product offered by Morris; but they were denied a license. Soon after, a prominent local attorney suggested that credit life insurance was more akin to group life insurance than it was to individual life insurance. The Bank went back to the state insurance department with the group credit life insurance proposal, which was accepted. In 1925, they formed The Credit Life Insurance Company and received a license to sell group credit life insurance. In 1926, the company issued the first group credit life insurance policy that became the prototype for the way credit life insurance on installment loans was to be done for the next 80 years.

Thus, the second insurer of credit life insurance, The Credit Life Insurance Company of Springfield, Ohio, sprang from the debt cancellation concept. Some critics believe that debt protection products are just credit insurance products sold under a different name. This book contains information describing the basic elements of debt protection products and what distinguishes them from insurance products. Based on historical events, debt protection products could have evolved along with or instead of credit life insurance.

For the next forty years, credit life insurance, and later, credit disability insurance, were the loan protection product of choice for lenders. As consumer installment debt in the U.S. became commonplace after World War II, credit insurance blossomed. In the 1950s and early 1960s, consumer debt grew, but credit insurance grew even faster as more lenders and borrowers understood and appreciated the benefits of protected loans.

Not until the early 1960's did the idea of debt protection products re-emerge. In March 1964, the Comptroller of the Currency issued regulation 12 C.F.R. 7.7495 that defined a debt cancellation contract:

> *Debt Cancellation Contract;* A national bank may provide for losses arising from cancellation of outstanding loans upon the death of borrowers. The imposition of an additional charge and the establishment of necessary reserves in order to enable the bank to enter into such debt cancellation contracts are a lawful exercise of the powers of a national bank and necessary to the business of banking.

This authority was granted under federal law and superseded any state banking or insurance laws or regulations. Those federal laws remain in place today.

Illustration 1.1

As a practical matter, no one exercised the authority until Arkansas adopted a new credit insurance regulation around 1986 limiting compensation and reinsurance companies owned by producers. The First National Bank of Eastern Arkansas decided to offer Debt Cancellation Contracts (DCCs) in the belief that the banking regulations for DCCs would not be as restrictive as insurance department regulations for credit life insurance. They advised the Arkansas Insurance Department of their intentions and received a reply affirming that DCCs would not be regulated by the Department. With this affirmation, the bank began issuing DCCs. Credit insurers objected, arguing to the Department that the contracts were insurance products. The Department then reversed its decision, and notified the bank that it would take action if the bank issued a DCC. The bank sued, and the Arkansas Circuit Court ruled in their favor. The U.S. Court of Appeals, 8th District, upheld the decision that DCCs are not insurance when issued by a national bank. The U.S. Supreme Court chose not to review the case.

During the early 1990s, there was considerable consolidation occurring within the financial services marketplace; but in the background, debt protection products began to emerge. First, Providian Bank credit cards introduced a debt suspension agreement, and then Advanta Bank credit cards released a combination debt cancellation contract and a debt suspension agreement. When Citibank credit cards began in January 1999 to offer a debt suspension agreement for all new solicitations, it was clear that debt protection products were here to stay.

Not just banking regulators recognized debt cancellation contracts. In September 1993, the Office of Thrift Supervision ruled that Federal Savings Associations could include debt cancellation provisions in their lending contracts. In July 2001, the National Credit Union Administration (NCUA) made a broad change to the incidental powers regulation for Federally Chartered Credit Unions, which included an explicit authorization for the issuance of debt protection products. In many states, state banks and state credit unions are granted "parity" with national banks by state law; the state institutions are automatically granted any power granted to a national bank or federal credit union. Now, all National Banks, Federal Savings Associations, Federally Chartered Credit Unions and, as a result of state parity provisions, many state chartered financial institutions could offer debt protection products as well.

When the Office of Comptroller of the Currency (OCC) released its final rule governing DCCs (Debt Cancellation Contracts) and DCAs (Debt Suspension Agreements) in September 2002, National Banks were given a reaffirmation of the power to offer these products and were given guidance on the rules and

regulations they must follow. This removed the last element of doubt and has led to a steady conversion to protection products.

The following table includes the dates of some significant events in the history of debt protection products and provides a high level historical timeline of the debt protection product evolution.

1920s	First Debt Cancellation Contract	Morris Plan Bank of Springfield, Ohio implements the first recorded occurrence of the debt protection concept
March 1964	OCC Authorizes Debt Cancellation Contracts	Comptroller of the Currency issued regulation 12 C.F.R. 7.7495 authorizing national banks to offer debt cancellation contracts
1987 - 1990	Court Challenge	First National Bank of Eastern Arkansas sues the Arkansas Insurance Department and wins the first court challenge on the use of debt cancellation contracts
Early 1990s	First Credit Card Program	Providian rolls out a debt suspension program for credit cards
Sept. 1993	OTS Authorizes Debt Cancellation Contracts	Office of Thrift Supervision (OTS) authorizes debt cancellation provisions for Federal Savings Associations
Late 1994	Second Credit Card Program	Advanta Debt Cancellation/Debt Suspension Program for Credit Cards
1994 - 1996	Further OCC Actions	The OCC issued Interpretive Letter No. 640 and made regulatory changes that reaffirmed the 1964 ruling and extended the written authorization to the contingencies of disability and unemployment
1995 - 1996	Kerr-Hickman Court Case	GAP ruled to be a debt waiver product and excludable from the finance charge in the computation of the APR
September 1996	Truth-in-Lending Modified	Truth-in-Lending Regulation modified to treat DCCs just like credit insurance and excludable from the finance charge in the computation of the APR
1997 - 1998	More Credit Card Programs	Advanta Credit Cards sold to Fleet; Fleet DCC, DSA program for credit cards; Capital One and Metris credit card programs
January 1999	Citibank Converts	Citigroup Credit Protector debt suspension program for credit cards introduced for all new solicitations
Spring 2000	Debt Cancellation for Installment Lending	First regional bank debt cancellation and payment holiday program for installment lending by TFC National Bank
July 2001	NCUA Authorizes Debt Cancellation Contracts	NCUA expands incidental powers regulations, part 721, to include the authorization to issue DCCs
Fall 2001	First Credit Union Program	BELLCO credit union offers debt cancellation on indirect automobile loans
Fall 2001	First Major Bank Installment Program	Bank of America rolls out Borrowers Protection Plan for all installment lending nationwide
July 2002	First Complete Credit Union Conversion	United Airlines Employees Credit Union converts to debt protection products
Sept 2002	First Formal Regulation	OCC issues first rule governing DCCs and DCAs offered by national banks

As a result of these and other events, debt protection products can be offered by the majority of financial institutions doing business in the United States today. This includes all national banks, federally-chartered thrifts, and federally-chartered credit unions. Authority for state banks, state-chartered credit unions, and

other general state-chartered lenders varies from state-to-state, but many of these lenders can also offer debt protection products today.

The following material is from the upcoming book, Debt Protection Products, by Gary Fagg and Keith Nelson.

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Chapter Two

Concepts and Terminology

There is no standard set of terminology in use for debt protection products. Debt protection products are not currently restricted by rigid regulations or a long marketplace presence. This environment has led to a freedom to create new approaches for designing these products as well as a freedom to create new naming conventions and terminology. This book offers a set of definitions and terminology but also references some of the more common alternative terms found within the marketplace. For a complete list of terms and definitions used within this book, there is a glossary included as Appendix A.

Debt Protection Product Structure

Illustration 2.1

Debt protection products are two-party agreements solely and completely between the lender and a borrower. They are fee-based loan products in which the lender agrees to cancel, suspend, or otherwise modify the terms of the loan when certain protected events occur. A debt protection product may be simply a provision within a lending agreement, it can be an addendum attached to a lending agreement, or it can be a

separate contract. It is most commonly an addendum to a lending agreement, whic modifies the terms of the underlying lending agreement.

Most importantly, there is no indemnification or payments made to the borrower. No borrower ever gets paid money, only the cancellation or suspension of debt. Furthermore, unlike insurance products, the solvency of the lender is not required to fulfill the promises made by the lender. Even if the lender's vault is empty, the lender can honor the terms of the agreement by canceling or suspending the borrower's debt.

Debt protection products refer to the general family of products that includes at least three subcategories of benefits: debt cancellation, debt suspension, and payment holiday. In addition, it is possible to mix any of these three general benefit categories within a particular debt protection product. For example, a debt protection product may provide a debt cancellation benefit in the event of the borrower dies, a debt suspension benefit in the event of the borrower is disabled, and a payment holiday in the event the borrower becomes involuntarily unemployed.

The Office of the Comptroller of the Currency (OCC) uses certain terminology, such as a debt cancellation contract (DCC) or a debt suspension agreement (DSA), when defining these products for the purpose of its regulation. These definitions are consistent with the generic definitions used in this book.

Debt Cancellation Benefit

A *debt cancellation benefit* is a provision or addendum in a lending agreement, or in a separate contract, that provides for the cancellation of part, or all, of the debt in the event that a protected event occurs to a protected person. The most common debt cancellation benefits are outstanding balance benefits and monthly benefits.

> *Outstanding Balance Benefit:* When a protected event occurs, a specified portion of the debt is canceled. In most cases, the specified portion is the outstanding debt on the date the protected event occurs, however, the amount of debt cancelled can be any amount up to the outstanding balance. The only restriction to product design is that the benefit provided cannot exceed the aggregate amount of the debt.
>
> *Monthly Benefit:* When a protected event occurs, the requirement to make a monthly payment is canceled, the interest for the month is canceled, and debt equal to the scheduled principal reduction in the required monthly payment is canceled. This benefit has the same effect on the loan balance as if the borrower made their scheduled loan payment of principal and interest. Fees for the debt protection product are often canceled also.

The OCC definition for debt cancellation contract is:

> "A *debt cancellation contract* is a loan term or contractual arrangement modifying loan terms under which a bank agrees to cancel all or part of a customer's obligation to repay an extension of credit from that bank upon the occurrence of a specified event. The agreement may be separate from or a part of other loan documents." §37.2 (f)

Debt Suspension Benefits

A *debt suspension benefit* is a provision or addendum in a lending agreement, or a separate contract, that provides for the suspension of the debt in the event that a protected event occurs to a protected person. Since no portion of the debt is ever canceled, the only type of debt suspension benefit is a monthly (or periodic) benefit.

This book's terminology slightly differs from the OCC definitions. The OCC essentially has two types of debt suspension benefits:

> Debt suspension without interest accruing
> Debt suspension with interest

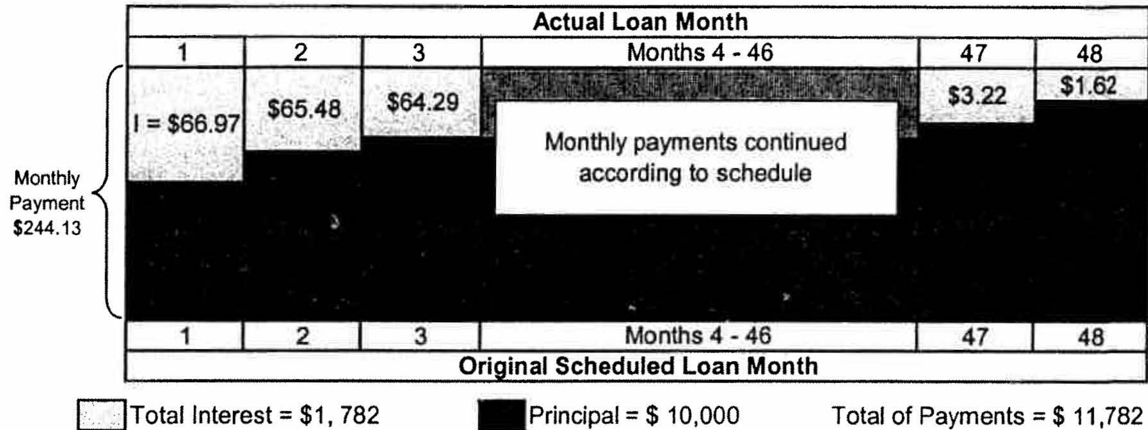
This book uses the term *debt suspension benefit* to be *debt suspension without interest accruing*, and the term *payment holiday* to be *debt suspension with interest accruing*. During the early development of the debt protection product concepts, debt suspension benefits were also called *debt deferment benefits*.

When a protected event occurs, the requirement to make a monthly payment is suspended, and interest accrual is suspended. Fees for the debt protection product are often suspended also.

The following illustration describes a 48-month installment loan with no debt suspension event occurring.

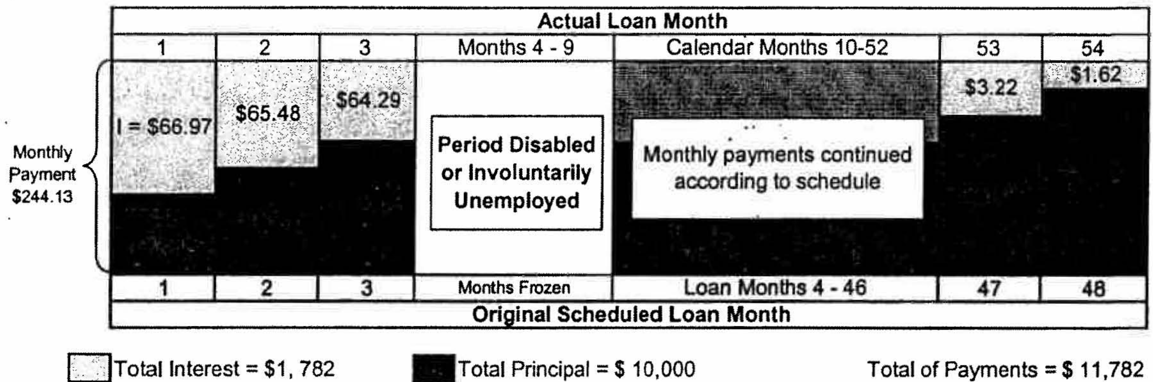
Scheduled Loan with Debt Suspension Benefit

No Benefit Activation



This next chart illustrates the impact of a six-month debt suspension benefit activation on the loan amortization. When the period of debt suspension event is over, the borrower begins making loan payments again. During the period of debt suspension, the loan was effectively frozen. In this example, the impact is an extension of the original loan term by six months.

With 6-Month Period of Benefit Activation



The OCC definition for debt suspension (DSA) is:

> "*Debt suspension agreement* means a loan term or contractual arrangement modifying loan terms under which a bank agrees to suspend all, or part, of a customer's obligation to repay an extension of credit from that bank upon the occurrence of a specified event. The agreement may be separate from or a part of other loan documents. The term debt suspension agreement does not include loan payment deferral arrangements in which the triggering event is the borrower's unilateral election to defer repayment, or the bank's unilateral decision to allow a deferral of repayment." §37.2 (g)

Payment Holiday Benefit

The definition of a payment holiday is an exercise in semantics. It is an attempt to separate two very similar concepts because of the DSA definition in the OCC regulations.

Our definition of a payment holiday is:

A *payment holiday benefit* is a provision or addendum in a lending agreement, or a separate contract, that provides for the suspension of the debt in the event that a protected event occurs to a protected person. Since no portion of the debt is canceled, the only type of payment holiday benefit is a monthly benefit. When a protected event occurs, the requirement to make a monthly payment is canceled. Interest on the loan continues to accrue, and debt protection product fees often continue to accrue.

Using the OCC terminology, this benefit is simply a variation of debt suspension; its full description is *debt suspension with interest accruing.*

It is important to understand that there is a distinction between a payment holiday and a lending practice that is generally known as a "skip-a-payment." Skip-a-payment offers are excluded from the OCC regulation via the last sentence in the definition of debt suspension agreements.

> *"The term debt suspension agreement does not include loan payment deferral arrangements in which the triggering event is the borrower's unilateral election to defer repayment, or the bank's unilateral decision to allow a deferral of repayment."*

Skip-a-payment is an offer by the lender that allows the borrower to elect to forego making a specified monthly payment. The most common example is a lender that extends an offer to its best customers that allows a customer to choose to forego making a December payment because of the cash flow demands of the holiday season.

The financial effect is the same under both concepts—no principal is canceled, and interest still accrues—but there are critical differences. The differentiating features of a skip-a-payment are that the lender selects the borrowers who receive the offer, and the borrower can receive the benefit without any protected event having occurred. With debt protection products, a protected event must occur to a protected person; the borrower cannot invoke a debt protection feature; a protected event must happen to a protected person.

Debt Waivers

A separate section of this book deals with debt waivers, but it is mentioned here to complete the presentation of the definitions. Automobile GAP provides a benefit such as:

> In the event of a total loss, the borrower's obligation to pay the remaining indebtedness will be discharged after the primary property insurance benefits have been collected by the creditor.

GAP protection is simply a debt cancellation benefit, but the product evolved separately from the debt protection products for lenders. In most situations, it is named GAP Waiver. When GAP is sold by a lender who has the federal exemption for debt protection products, it is generally considered to fall under the regulatory environment for debt protection products. In automobile lending, the dealership is the lender for a brief period before the dealership sells an installment loan to another lender in the indirect lending market. The automobile dealership as a lender does not have an automatic exemption from state insurance laws. If the dealership offers GAP, it is considered an insurance transaction in about 20 states, but in the other states, it is a debt waiver that is simply one form of contractual waiver. Segments of the credit protection industry are exploring ways to apply the debt waiver concept to other protected events.

In this book, a debt waiver is:

A debt cancellation benefit, a debt suspension benefit, or a payment holiday benefit where the lender at the time the product is offered to the borrower does not have an exemption from state insurance laws and regulations derived from federal statutes, but where the benefit has been determined on a state-by-state basis not to be insurance for state insurance regulatory purposes.

As a means of keeping debt cancellation benefits and debt suspension agreements separate from debt waiver products, we refer to items being *canceled* for debt cancellation, debt suspension, and payment holiday benefits and items being *waived* for debt waivers, but the terms *cancel* and *waive* are synonymous.

Protected Borrowers

The *primary borrower* is the person who has the primary obligation to repay the debt. Under open-end lending, the primary borrower means the cardholder on a single cardholder account or the first-named cardholder on a joint account. Under installment debt, the primary borrower is the borrower on a single borrower loan or the first-named borrower if there is more than one person obligated under the lending obligation.

Co-borrowers are other individuals named in the lending obligation who have a joint obligation along with the primary borrower to repay the debt. Under open-end lending, a *co-cardholder* means a cardholder, other than the primary cardholder, on a joint account. Under installment debt, the person is normally referenced as a joint borrower.

Co-borrower does not include a *guarantor* who is obligated to repay the loan only if the primary borrower fails to make scheduled repayments. This has important implications later in managing adverse selection. If a guarantor could be protected, it becomes easier to add a guarantor for the sole purpose of increasing the probability of collecting benefits under the debt protection product.

Other Potentially Protected Persons

Under credit card lending, *an authorized user* is a person that is authorized to incur debt by using the card, but who does not have an obligation to repay the debt. Some credit card debt protection products allow these individuals to be protected; however, this does increase the opportunity for adverse selection.

Immediate family member of a borrower's household means the borrower's spouse, natural children, adopted children, or parents who are residing in the borrower's household on a regular basis. Some credit card debt protection programs allow these individuals to be protected; however, this does increase the opportunity for adverse selection.

Highest wage earner of a borrower's household is the person residing in the same household as the borrower with the highest current wage or the highest wage in the prior calendar year. The most common test is based on the highest W2 earning in the prior year, but there may be other financial tests to determine which person is the highest wage earner at the time of loss.

Forms of Protection

Single protection means protection for events that happen to the primary borrower.

Joint protection means protection for events that happen to the primary cardholder and a co-borrower. In this book, joint protection presumes that the primary borrower had an option to choose between single and joint protection. If joint protection is elected, it is assumed that two persons are protected.

Co-borrower protection means protection for events that happen to the primary borrower or a co-borrower if there is a co-borrower. This applies to situations where the protection is automatically extended to a co-borrower if a co-borrower exists, but it does not necessarily presume that a co-borrower exists. In other words, if there is only one borrower, the protection is single protection. If there is a borrower and a co-borrower, co-borrower protection is automatically provided. In these situations, the fee is generally a "blended fee." This blended fee is the same regardless of whether there is one or two borrowers named on the loan. The fee rate is derived by computing a weighted average fee based on the proportion of single borrowers and co-borrowers in the lender's loan portfolio. The simplicity of calculations and disclosures can be balanced against rating inequities that may be introduced.

General Terminology Summary

Terminology is evolving in the debt protection marketplace. While some people will compare debt protection to insurance products, it is critical to understand that these products are not insurance products. Terminology differences are important in communicating the distinctions.

The following table was created as a useful guide to the terminology differences between debt protection products and insurance products.

Insurance Words	Debt Protection Words
Contingency	Protected event
Claim	Benefit activation, loss
Credit	Debt, lending obligation
Insurance, Coverage	Protection
Insured	Protected borrower
Life insurance	Death protection, loss of life protection
Pay	Cancel, suspend, waive
Insurance policy, insurance certificate	Loan provision, addendum, contract, agreement
Premium	Fee

While this is a useful chart, terminology has not yet evolved to the point that there is a standard set of nomenclature. Therefore, when developing debt protection products or reviewing existing debt protection products; the best advice is to draft and read carefully.

Advantages of Debt Protection

The marketplace is still in the early evolutionary stages of product development. Lenders have long understood that unfortunate events happen to borrowers, such as death, disability, or unemployment, which affect the borrowers' ability to repay debt. For almost a century, lenders have offered credit-related insurance products as one way to provide protection to borrowers. When a loan went unprotected, the lender simply absorbed the risk and spread the cost across all borrowers and savers via adjustments to the interest rates. Debt protection products offer a new approach to offering protection on loans.

Debt protection products are lender products, not insurance products. They are two-party agreements solely between the lender and the borrower. They are generally not subject to insurance regulations. This freedom provides significant opportunities when it comes to product design and pricing. But do not mistake this freedom for a lack of regulation. These products are regulated and will continue to be regulated. Just as there is a new freedom with product design and pricing, there is an opportunity to create a regulatory environment that is supportive of the need for these protection products.

Debt protection products offer a number of major advantages to lenders including:

- **Freedom to name the product:** Debt protection products are lender products and can be named or branded by the lender. The lender's brand results in positive name recognition for marketing but also accountability in terms of honoring the terms of the debt protection product. The lender is no longer selling a third-party insurance product; it is selling one of its retail lending products. Although branding can be powerful, it is not an easy step. Proactive market research can avoid trademark infringements and name associations with products that do not enhance the lender's marketing efforts.
- **Freedom to choose protection features:** Each lender services borrowers with different demographics and protection needs. The debt protection product allows lenders to choose the right protected events and the right benefit features to meet these varying needs. In the debt protection products, more things are possible, so product design creativity can flourish.
- **Freedom to integrate protection within the lending process:** Most lenders want to provide fast, efficient, and low-cost loans and want to offer protection products that are easy to deliver. With the emergence of remote loan delivery, such as internet, phone, fax, and mail, it becomes more difficult to distribute inflexible insurance products. These difficulties are dramatically reduced in the debt protection product environment. Since the debt protection product is a provision of the loan contract;

it is not restricted in text or form by insurance regulations. The language and style can be adjusted to better integrate into the flow of the loan documents and the lending process.

- **Freedom from insurance agent licensing requirements:** Insurance agent licensing rules comes into play to varying degrees that vary by state, especially as it affects the ability to provide incentives to lending staff. Since debt protection products are not insurance products, no insurance licensing requirements apply. While insurance licensing requirements do not apply, it is important to train staff properly and monitor sales activity to ensure a quality buying experience and to manage the reputation risk to the lender.
- **Freedom to select the rate:** Debt protection products are offered as a value added service to the borrowers of the lender. Most lenders will want to provide products that enhance the lending process, satisfy their borrowers, but also meet the financial needs of the lender. The debt protection environment allows the lender to select product features and fee rates that balance customer value with the income needs of the lender, the process a lender goes through for other lending products.

Along with these basic freedoms comes the responsibility to construct and manage a program that meets the needs of the borrowing public, enhances the success of the lender, and diminishes the need for strong regulatory oversight.

While the lender designs the product and sets the price, it is the borrower who chooses to purchase the product. If the product provides the right protection at the right price, borrowers will purchase it. If the lender chooses the wrong benefits or sets the price too high, consumers will say no. The power of debt protection products is the ability to offer a customized range of choices to the borrower at different price points.

Debt protection products have opened a once-in-a-generation opportunity to produce a better overall loan protection environment for everyone.