



PERSONAL
LOANS 101:

UNDERSTANDING PAYMENT PROTECTION INSURANCE



Payment protection insurance can be a valuable tool in helping protect your credit and your loved ones from unexpected life events. If something unfortunate – such as an involuntary job loss, illness, accident, loss of life or loss of collateral – happened and you weren't financially prepared, the result could be devastating.

While most consumers feel they have enough insurance, did you know that:

- 93% of Americans say that life insurance is something most people need. (1)
- Yet only 44% of U.S. households have individual life insurance policies. (2)
- 30% of U.S. households have no life insurance. (3)
- You have a 3 in 10 chance of suffering a disabling illness or injury during your career that would keep you out of work for three months or more. (4)
- Illnesses – not accidents – account for 90% of disabilities. (4)

RESEARCH SOURCES:

- (1) LIFE Foundation and Kelton Research, 2008
- (2) LIMRA International, Trends in Life Insurance Ownership, 2010
- (3) Facts from LIMRA, Life Insurance Awareness Month, September 2012
- (4) Council for Disability Awareness, Long-Term Disability Claims Review, 2010

WHAT IS PAYMENT PROTECTION INSURANCE?

Payment protection insurance, also known as **credit insurance** and/or **credit protection**, provides for repayment of some or all of a loan should something unexpected happen, such as the death or disability of a borrower, or the involuntary loss of a job. The insurance is designed to cover monthly loan payments for a specified period of time or repay the entire loan balance. The optional insurance is always sold in conjunction with a credit obligation, such as vehicle finance, personal loan, credit card, or mortgage line of credit.

Lenders nationwide – banks, credit unions, credit card companies, consumer finance companies, department stores, or furniture stores – offer payment protection insurance where loans are made and credit is extended.

WHAT ARE THE MAJOR TYPES OF PAYMENT PROTECTION INSURANCE?



CREDIT LIFE

Provides for payoff of the loan upon the death of the borrower.



CREDIT DISABILITY OR ACCIDENTAL AND HEALTH

Provides for monthly loan payments if the borrower becomes ill or injured and cannot work during the term of coverage.



CREDIT INVOLUNTARY UNEMPLOYMENT

Provides for payment of a limited number of monthly loan payments if the borrower loses his/her job due to no fault of their own, such as a layoff, during the term of coverage.



CREDIT PROPERTY

Provides for repair or replacement of personal property serving as collateral for the credit obligation if the property is lost, damaged or stolen. Unlike credit life, disability and/or involuntary unemployment insurance, credit property is not directly related to an event that could affect a consumer's ability to repay his/her debt.



SINGLE/DUAL INTEREST AUTO

Provides for payment of the creditor's financial risk (single) or the creditor and borrower's financial risk (dual) in the event of an insured loss to the vehicle pledged as collateral.

IS PAYMENT PROTECTION INSURANCE REQUIRED TO GET A LOAN?

NO.

Payment protection insurance is not required for obtaining credit, but if purchased it can be cancelled at any time. In some states, the lender may require certain payment protection insurance. However, in those cases, the borrower has the right to purchase the coverage from an independent carrier; the coverage does NOT have to be purchased from the lender granting the loan.

Always check your loan documents to make sure you understand all terms and charges associated with your new debt. Do not sign a contract if it includes terms that you have not agreed to, has any blanks, or if all your questions have not been answered.

IS PAYMENT PROTECTION RIGHT FOR ME?

Payment protection insurance can provide peace of mind if you have concerns about repaying all or part of your loan if you lose your job involuntarily, become disabled due to illness or accident, or die. The coverage can help reduce your financial risk if the unexpected happens.

You should always check the terms and conditions of an insurance policy before you buy it. There may be exclusions and limitations that could keep you from receiving the desired protection.



CAN I AFFORD PAYMENT PROTECTION INSURANCE?

For many borrowers, these insurance plans are affordable because the cost is not based on a borrower's age, gender, or occupation, and coverage can be purchased in the amount and term needed to cover the loan obligation (up to policy maximums). The premium for payment protection insurance is the same for all who apply. The total premium is determined by the amount of the loan balance, type of loan, the type of coverage selected and the number of borrowers who will receive the coverage (single or joint).

In many cases, the premium for payment protection insurance is paid monthly and is calculated based upon the existing loan balance. As the loan decreases, the monthly cost for payment protection also decreases. In other cases, the cost for payment protection is covered by a single premium for the term of the loan. In those cases, the single premium **is** included in the loan amount financed by the lender.

In either case, the cost of payment protection insurance is included in the borrower's monthly loan payment.

CAN I CANCEL THE COVERAGE?

YES.

Payment protection insurance can be cancelled at any time by the borrower. Upon cancellation, any paid but unearned premiums will be refunded to the borrower based on a refund method filed with and approved by the state. In addition, some states require a free look period of 15 to 30 days. If the payment protection insurance is cancelled during this *free look period*, all of the premiums paid for the cancelled insurance will be refunded.

HOW DO I FILE A CLAIM?

Filing a claim is very straightforward. Insurers will:

- Require initial documentation that demonstrates your loss or disability.
- Work with you and the lender to verify your claim and track its processing.

Some payment protection plans will allow for more than one claim settlement throughout the life of the loan, unless the loan balance is paid due to a loss of life. Most policies include limitations and exclusions. Read your policy thoroughly for a complete explanation.



FEDERAL AND STATE LAWS

- The federal Truth in Lending Act governs the disclosure of payment protection products.
- Payment protection insurance is optional.
- Credit insurance is subject to regulations that vary by state. To find more information about your state insurance department, go to: www.naic.org/state_web_map.htm.
- If you have any doubts about the policy or the company that is offering the insurance, contact your state government insurance commissioner or office of consumer affairs.
- State laws and regulations establish payment protection rates, which are periodically adjusted to protect consumers.
- Many states have specific state disclosure requirements. For example, Texas has a Consumer Bill of Rights and a Guaranty Fund Notice that must be provided to all customers in both English and Spanish.
- Some state specific requirements could include fraud warnings, which are more commonly found on the application page of the insurance certificates. All claim forms contain both state-specific and generic fraud warnings that are applicable for each state.





**AFSA EDUCATION
FOUNDATION**
Brightening Your Financial Horizon

AFSA Education Foundation

919 Eighteenth Street, NW
Washington, DC 20006-5517
Phone: 888-400-7577

Email: personalloans101@afsaef.org

Website: www.afsaef.org