Credit Insurance

What is credit insurance?

It is insurance sold with a credit transaction, such as a loan or credit card, that will pay all or a portion of the outstanding credit balance if a claim is filed. If you decide to purchase the insurance the cost of it is typically added to the balance of your credit transaction.

Are there different types of credit insurance?

Yes, they are:

- Credit Life Insurance - when a borrower dies the proceeds of the policy are used to pay off all or part of the borrower's debt. The payment goes to the lender, which is the named beneficiary on the insurance policy. If the insurance proceeds are greater than the debt the surplus is paid to the borrower's estate.
- Credit Disability Insurance - pays all or a part of a borrower's monthly loan payment in the event the borrower is totally disabled.
- Involuntary Unemployment Insurance - pays all or a part of a borrower's monthly loan payment in the event the borrower loses income as a result of either a labor dispute or involuntary unemployment.

Can credit insurance be a requirement to obtain a loan?

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

May I cancel the credit insurance after I purchase it?

Yes, if you cancel within 10 days of the purchase of the insurance you are entitled to a full refund of the insurance premium. If you cancel after the first 10 days you will receive a partial refund. In this case, the amount of the premium refund will usually be calculated by the Rule of 78 method.

What does credit insurance cost?

The cost depends on the amount of the credit balance and the type of policy purchased. The larger a credit balance is the more it will cost to insure it. For a typical auto loan in which the customer borrows $15,000 for four years at 9%, credit life insurance will cost approximately $294 and disability insurance will cost $432. These premiums are based on the typical situation in which the insurance covers not only the principal amount of $15,000 but also the finance charges that would accrue on that balance. Finance charges in this example would amount to $2,917.

Should I buy credit insurance?

Generally credit insurance is expensive in comparison to other forms of insurance. As an example for a person in good health, the chart below compares the approximate annual cost of credit life insurance to term life insurance for coverage of $50,000.

Age	Credit Life	Term Life
30	$370	$78
40	$370	$92
50	$370	$163
60	$370	$321

May claims be denied on credit disability insurance?

Claims may be denied for certain reasons. For instance, credit disability insurance is usually sold on a so-called "6 by 6" plan. This means if you file a claim within the first six months of the credit transaction for a health condition that you were treated for during the six months prior to obtaining the credit, your claim can be denied due to the "pre-existing condition" clause. Additionally, the definition of total disability changes after the borrower is disabled for one year. During the first 12 consecutive months of disability, disability is defined as the inability to perform the duties of the regular occupation at the time the disability occurred. After the disability has lasted for 12 consecutive months, disability is defined as the inability to perform **any** occupation for which the borrower is reasonably fitted by education, training, or experience.

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

Helpful tips when considering credit insurance

- Be sure to consider whether you really need credit coverage. Compare the amount of insurance provided and the cost of insurance with various companies.
- Be sure you understand the limitations of the coverage. The coverage may not be enough to completely pay off your debt. Insurance on a credit card only pays the minimum monthly payment; it does not pay off the total credit card balance.
- Be careful of "free" insurance offers. Many companies offer a free introductory period for 30 to 90 days, but to cancel the insurance after this period takes action on your part.
- When solicited over the phone, be sure to ask for the name of the caller, as well as the name of the company the caller represents. If you do not want the coverage, simply inform the solicitor of your wishes and hang-up.
- Be sure to review credit card statements carefully. If a charge for insurance that you did not request appears on your statement, report the unauthorized charge

immediately to both the credit card issuer and the insurance company. A phone number for the insurance company usually appears next to the premium charge on the credit card statement.

- When taking out a loan of any kind, look over all the documents before you sign anything. Don't be afraid to ask questions if you don't understand something you are being asked to sign.
- Remember that lenders cannot condition a consumer loan on whether or not you purchase credit insurance.