

The Consumer's Edge

Consumer Protection Division, Maryland Attorney General's Office

Issue # 143

Credit Insurance: Read the Fine Print Before You Buy

You just bought a used car and took out a five-year loan. The car cost \$12,000 but you've needed one for a long time. You drive it home and sit down on your couch to look over the papers you just signed. Suddenly, you notice something you hadn't seen before: an \$11 monthly charge for credit insurance. "Oh, well," you think. That's not much money when you're paying a few hundred dollars a month in car payments. But wait. You think about it some more. That's \$660 over five years! And what exactly is credit insurance, anyway?

If you're preparing to borrow money or make a purchase on credit, beware. Along with a loan, you may also be buying costly and unneeded insurance.

A report issued by the American Association of Retired Persons (AARP) concluded that for "the overwhelming majority of people, credit life insurance make little economic sense." Credit insurance is notorious for being one of, if not the, most overpriced insurance products purchased by consumers.

There are three types of credit insurance: credit life insurance, which pays off an outstanding loan if you die; credit disability insurance, which makes payments on a loan if you are disabled; and credit involuntary unemployment benefit insurance, which makes payments on a loan if you are involuntarily unemployed. The lender - not you or your family - is named as the beneficiary. Payments are only made during the period of disability for disability coverage or during the period of unemployment for unemployment coverage.

The way credit insurance is sold often leaves consumers with the impression that it is mandatory, although it rarely is. In Maryland, lenders

cannot require the purchase of most types of credit insurance.

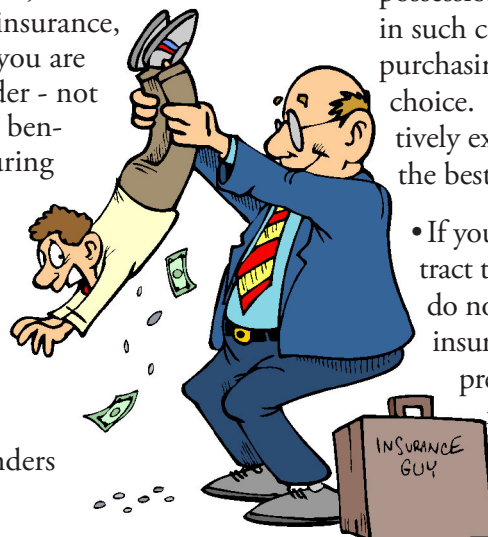
How Do Retailers Benefit?

Businesses profit from the sale of credit insurance in three ways:

1. They receive a commission from the insurer for selling the insurance.
2. They guarantee themselves that the loan they make will be repaid.
3. In some cases, the seller can add the amount of the insurance premium to the loan amount and finance the entire amount.

What You Can Do

- Make sure you do not sign or initial a statement saying you want to buy credit insurance unless you determine you really want it. Many consumers simply agree without even knowing what they are purchasing.
- Lenders can require credit property insurance on loans secured by a piece of property or possessions that could be destroyed. However, in such cases, you must be given the option of purchasing insurance from a company of your choice. Credit property insurance can be relatively expensive, so you should shop around for the best rates.
- If you realize after you've signed a loan contract that you purchased credit insurance you do not want, you may be able to cancel the insurance agreement. If you paid the entire premium in a single payment upfront, you may also receive a refund. Your policy



should describe how to cancel your policy and how to request a refund, if applicable.

Consider Alternatives to Credit Insurance

- First, consider whether you need to buy credit insurance at all. Check to see if your homeowner's or life insurance policy already provides adequate coverage.
- If you decide you want protection for a substantial loan because you do not want your estate at risk for those funds, increasing a current life insurance policy or purchasing a separate term life insurance policy, taken out for the same amount as the debt, usually would provide far less expensive protection.
- Other good options are buying privately owned disability insurance or adding a rider to your whole life insurance policy to cover payment of the outstanding debt in the event you are injured, become ill or die. The premium cost of either of these alternatives most likely will be far less than the cost of similar coverage under a credit life or credit disability policy.

Understand the Terms

As with any other form of insurance, before buying, make sure you know exactly what is covered, how much it will cost and whether it will meet your needs. Make sure you understand all the details before signing a contract. Check the policy closely to see:

- If it is comparable to the cost and insurance provided by other companies offering similar policies.
- Is the premium financed as part of the loan? Will it increase the loan amount, increasing the interest you will need to pay? Is it paid monthly?
- How long will you be covered? Some policies only make payments for up to four to six months.
- What are all the limitations? Make sure you know what is included and excluded in your plan.
- Is there a waiting period before coverage takes effect?

- What is the company's cancellation policy? How many days do you have, what is the refund policy and what are the penalties?

For more information regarding credit insurance, Maryland consumers are advised to contact the Maryland Insurance Administration at 410-468-2000 or 1-800-492-6116. Consumers may also go online to read MIA's informational literature on credit insurance at: www.mdinsurance.state.md.us/sa/documents/CreditInsuranceAdvisory08-08rev2.pdf.

To make a complaint about a business, please call the Consumer Protection Division at 410-528-8662 or 1-888-743-0023. Consumers are also encouraged to visit our website at www.oag.state.md.us/Consumer/index.htm.

Attorney General's Consumer Offices

Consumer Protection Division
200 St. Paul Place, 16th Fl.
Baltimore, MD 21202-2021

- General Consumer Complaints: 410-528-8662
Toll-free: 1-888-743-0023
TDD: 410-576-6372
9 a.m. to 3 p.m. Monday-Friday
- Medical Billing Complaints: 410-528-1840
9 a.m. to 4:30 p.m. Monday-Friday
To appeal health plan claims decisions:
Toll-free within Maryland 1-877-261-8807

Branch Offices

- Cumberland
301-722-2000
9 a.m. to 12:00 p.m. 3rd Tuesdays
- Frederick
301-600-1071
9 a.m. to 1:00 p.m. 2nd and 4th Thursdays
- Hagerstown
301-791-4780
8:30 a.m. to 4:30 p.m. Monday-Friday
- Salisbury
410-713-3620
8:30 a.m. to 4:30 p.m. Monday-Friday
- Southern Maryland (Hughesville)
301-274-4620
Toll-free 1-866-366-8343
9:30 a.m. to 2:30 p.m. Tuesdays

The Consumer's Edge is produced by the Maryland Attorney General's Office. Reprints are encouraged. Free subscriptions are available to groups wishing to distribute to their members. Call 410-576-6578.

Douglas F. Gansler, Attorney General