FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

Credit Insurance: Is It for You?

The next time you apply for a mortgage or personal loan, you may be asked if you want to buy credit insurance, or it might already be included in your loan proposal. Credit insurance protects the loan on the chance that you can't make your payments. Credit insurance usually is optional, which means you don't have to purchase it from the lender. In fact, the Federal Trade Commission (FTC), the nation's consumer protection agency, says it's against the law for a lender to deceptively include credit insurance (or other optional products) in your loan without your knowledge or permission.

There are four main varieties of credit insurance: **Credit life insurance** pays off all or some of your loan if you die. **Credit disability insurance**, also known as accident and health insurance, makes payments on the loan if you become ill or injured and can't work. **Involuntary unemployment insurance**, also known as involuntary loss of income, makes your loan payments if you lose your job due to no fault of your own, such as a layoff. **Credit property insurance** protects personal property used to secure the loan if destroyed by events like theft, accident or natural disasters.

Shopping Tips

Before deciding to buy credit insurance from a lender, think about your needs, your options, and the rates you're going to pay. You may decide you don't need credit insurance. If you do, credit insurance can be an expensive form of insurance. For example, it may be less expensive and more practical for you to get life insurance than credit insurance. Before deciding to buy credit insurance, you should ask:

- How much is the premium?
- Will the premium be financed as part of the loan? If so, it will increase your loan amount and you'll pay additional interest, and more for points (if points are on your loan).
- Can you pay monthly instead of financing the entire premium as part of your loan?
- How much lower would your monthly loan payment be without the credit insurance?
- Will the insurance cover the full length of your loan and the full loan amount?
- What are the limits and exclusions on payment of benefits — that is, spell out exactly what's covered and what's not.
- Is there a waiting period before the coverage becomes effective?
- If you have a co-borrower, what coverage does he or she have and at what cost?
- Can you cancel the insurance? If so, what kind of refund is available?

Before you sign any loan papers, ask the lender whether the loan includes any charges for voluntary credit insurance. If you don't want credit insurance, tell the lender. If the lender still pressures you to buy insurance, find another lender. And review your loan papers carefully to be sure they have been drawn up correctly. Lenders can't deny you credit if you don't buy optional credit insurance —

and if you don't buy it directly from them. If a lender tells you that you'll only get the loan if you buy the optional credit insurance, report the lender to your state attorney general, your state insurance commissioner or the FTC. Consumers should ask these same questions about other extra products offered with their loan, such as auto or shopping clubs, home or auto security plans, and debt cancellation products.

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure online database available to civil and criminal law enforcement agencies in the U.S. and abroad.

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