

## Single Premium Credit Insurance Premium Computations

- Premium computations are extremely complex when originating but not always as difficult when validating/verifying.
- Complexity arises from the fact the premiums are “INTEGRATED” as part of the credit transaction. They are not an “add-on” other charge.

For Example:

A consumer borrowing \$10,000 desires credit life and A&H coverage. The life coverage is gross payoff so both Life and A&H are based on the TOP.

However,

- The premiums are based on the TOP
- The TOP is a function of the monthly payment
- The payment is derived from applying the interest rate to the principal
- The principal contains the premium amounts which are based on the TOP, which is unknown at the start.

## Credit Accident & Health (A&H) aka “Disability” Insurance Coverage

A&H coverage protects the monthly payment obligation of a credit transaction. Once a claim is activated, A&H coverage will make a portion or all of a consumers monthly obligation during a time of injury, sickness, or a combination of both.

Single Premium A&H Rates are generally contained in a pre-determined schedule:

Accident & Health Rates

Florida 30 elim  
Florida 30 retro

Florida 7 retro  
Florida 14 elim  
Florida 14 retro

Description: Florida 14 retro

Mos	Rate	Mos	Rate	Mos	Rate	Mos	Rate	Mos	Rate	Mos	Rate
1	1.3000	16	1.8700	31	2.7400	46	3.1000	61	3.6200	76	3.7900
2	1.3000	17	1.8700	32	2.7400	47	3.1000	62	3.6200	77	3.7900
3	1.3000	18	1.8700	33	2.7400	48	3.1000	63	3.6200	78	3.7900
4	1.3000	19	2.1600	34	2.7400	49	3.3800	64	3.6200	79	3.7900
5	1.3000	20	2.1600	35	2.7400	50	3.3800	65	3.6200	80	3.7900
6	1.3000	21	2.1600	36	2.7400	51	3.3800	66	3.6200	81	3.7900
7	1.5800	22	2.1600	37	3.1000	52	3.3800	67	3.6200	82	3.7900
8	1.5800	23	2.1600	38	3.1000	53	3.3800	68	3.6200	83	3.7900
9	1.5800	24	2.1600	39	3.1000	54	3.3800	69	3.6200	84	3.7900
10	1.5800	25	2.4500	40	3.1000	55	3.3800	70	3.6200	85	3.9200
11	1.5800	26	2.4500	41	3.1000	56	3.3800	71	3.6200	86	3.9200
12	1.5800	27	2.4500	42	3.1000	57	3.3800	72	3.6200	87	3.9200
13	1.8700	28	2.4500	43	3.1000	58	3.3800	73	3.7900	88	3.9200
14	1.8700	29	2.4500	44	3.1000	59	3.3800	74	3.7900	89	3.9200
15	1.8700	30	2.4500	45	3.1000	60	3.3800	75	3.7900	90	3.9200

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Do not Round

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Input Information	
Interest rate	12.000%
Loan term in months	24
Payments per year	12 - Monthly
Closing date	5/10/2005
Interest start date	5/10/2005
First payment date	6/10/2005
Maturity date	5/10/2007
Whole Mos	1
Odd Days	0
Calendar Days	31
Fed Calendar Mos	1
Fed Calendar Days	0
Month and Days/365	
State	Florida

Amount Financed Itemization	
Loan Amount	\$10,000.00
Doc Stamp	\$36.40
Total insurance	\$356.96
Amount Financed	\$10,393.36
Total Principal	\$10,393.36

Finance Charge Itemization	
Interest	\$1,348.64
Finance Charge	\$1,348.64

Truth In Lending Information	
Annual Percentage Rate	12.000%
Amount Financed	\$10,393.36
Finance Charge	\$1,348.64
Total of Payments	\$11,742.00

Payment Schedule	
24 payments at	\$489.25

Insurance Information	
Single Gross decreasing life	\$103.33
Orig amount insured	\$11,742.00
Decreasing Life term in months	24
Single A&H insurance	\$253.63
Florida 14 retro	
Monthly A & H benefit	\$489.25
Total A & H benefit	\$11,742.00
A&H term in months	24
Total insurance	\$356.96
Daily ins. cost	\$0.48
Ins. per payment	\$14.87

These disclosed figures are estimates and may vary from the final closing loan figures.

Gross
  Net
  No Insurance

The A&H Premium is computed as follows:

Monthly Benefit x A&H Term of Coverage x A&H Rate at Term

$$\$489.25 \times 24 \times .0216 = \$253.627 = \$253.63$$

A shortcut, when no underwriting limitations are imposed, is:

$$\text{A\&H Rate @ term} \times \text{Total of Payments} = \text{Premium}$$

**When an underwriting limit is imposed, it is most often a limit of the monthly benefit.**

**For this example, we use a monthly benefit limit of \$250 which is low by today's industry standards but illustrates the concept.**

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Input Information	
Interest rate	12.000%
Loan term in months	24
Payments per year	12 - Monthly
Closing date	5/10/2005
Interest start date	5/10/2005
First payment date	6/10/2005
Maturity date	5/10/2007
Whole Mos	1
Odd Days	0
Calendar Days	31
Fed Calendar Mos	1
Fed Calendar Days	0
Month and Days/365	
State	Florida

Truth In Lending Information	
Annual Percentage Rate	11.998%
Amount Financed	\$10,267.73
Finance Charge	\$1,332.19
Total of Payments	\$11,599.92

Amount Financed Itemization	
Loan Amount	\$10,000.00
Doc Stamp	\$36.05
Total insurance	\$231.68
Amount Financed	\$10,267.73
Total Principal	\$10,267.73

Finance Charge Itemization	
Interest	\$1,332.19
Finance Charge	\$1,332.19

Payment Schedule	
24 payments at	\$483.33

Insurance Information	
Single Gross decreasing life	\$102.08
Orig amount insured	\$11,599.92
Decreasing Life term in months	24
Single A&H insurance	\$129.60
Florida 14 retro	
Monthly A & H benefit	\$250.00
Total A & H benefit	\$6,000.00
A&H term in months	24
Total insurance	\$231.68
Daily ins. cost	\$0.31
Ins. per payment	\$9.65

These disclosed figures are estimates and may vary from the final closing loan figures.

Gross  Net  No Insurance

New Loan Change Input Change Payment Print Quote Amortize

**The premium is computed by:**

$$\mathbf{\$250.00 \times 24 \times .0216 = \$129.60}$$

**In this scenario, the consumer is still liable for \$233.33 of the debt repayment during each month of sickness/disability.**

## Truncated Term A&H Coverage

The carrier may only agree to cover the first 60 or 120 months of a credit transaction. In this scenario, the mechanics of the premium computation stay the same, but the rate and term of coverage will change.

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Input Information	
Interest rate	12.000%
Loan term in months	72
Payments per year	12 - Monthly
Closing date	5/10/2005
Interest start date	5/10/2005
First payment date	6/10/2005
Maturity date	5/10/2011
Whole Mos	1
Odd Days	0
Calendar Days	31
Fed Calendar Mos	1
Fed Calendar Days	0
Month and Days/365	
State	Florida

Truth In Lending Information	
Annual Percentage Rate	12.000%
Amount Financed	\$27,116.89
Finance Charge	\$11,053.19
Total of Payments	\$38,170.08

Payment Schedule	
72 payments at	\$530.14

Insurance Information	
Single Gross decreasing life	\$1,007.69
Orig amount insured	\$38,170.08
Decreasing Life term in months	72
Single A&H insurance	\$1,014.00
Florida 14 retro	
Monthly A & H benefit	\$500.00
Total A & H benefit	\$30,000.00
A&H term in months	60
Total insurance	\$2,021.69
Daily ins. cost	\$0.92
Ins. per payment	\$28.07

Amount Financed Itemization	
Loan Amount	\$25,000.00
Doc Stamp	\$95.20
Total insurance	\$2,021.69
Amount Financed	\$27,116.89
Total Principal	\$27,116.89

Finance Charge Itemization	
Interest	\$11,053.19
Finance Charge	\$11,053.19

These disclosed figures are estimates and may vary from the final closing loan figures.

Gross  Net  No Insurance

New Loan Change Input Change Payment Print Quote Amortize

Again, the A&H Premium is computed as follows:

$$\$500 \times 60 \times \$3.38 = \$1,014.00$$