



Debt Protection vs Credit Insurance

Helping you protect more loans, more ways.

An unexpected loss of life, disability, or involuntary unemployment could prevent borrowers from making loan payments. With flexible program options and pricing, you can offer your borrowers a product to help protect them against the unexpected. This protection is good for your financial institution, and your borrowers too.

Debt Protection (DP), also known as Debt Cancellation, is the lender's ability to forgive or suspend debt. DP is designed to cancel a borrower's loan balance or reduce repayment of the loan debt should a protected event occur. Federal regulators formalized the authority in 1963 allowing federally regulated lenders to forgive their own debt and charge a fee (state parity laws do apply). DP provides lenders with a means to protect themselves against the risk of bad debt in the event of a borrower's loss of life, disability, etc.

Because Debt Protection is NOT insurance, there are many differences between the two programs. The following table highlights why debt protection could be considered a desirable alternative to credit insurance.

DEBT PROTECTION	CREDIT INSURANCE
Lending product – NOT insurance.	Insurance product – filed with the state Department of Insurance (DOI).
Two-party contract between authorized lender and borrower; it is the lender's program.	Three-party contract between lender, insurance company, and borrower. The lender is an agent acting on behalf of the insurance company.
Loan amendment from lender conveys the debt cancellation agreement.	Insurance certificate issued to the financial institution on behalf of the borrower conveys protection.
Regulated by the lender's governing body (OCC, NCUA, etc.).	Regulated by the DOI of the state.
Uniform product, pricing, and forms for financial institutions that operate in multiple states.	Different product, pricing, and forms for each state in which a financial institution operates.
No licensing required.	Some form of insurance licensing required in each state.
Product selections are flexible and designed by the financial institution to suit their borrowers.	The DOI dictates what you can sell.
Financial institution determines the retail rate.	The DOI mandates pricing.
Can add to an existing loan.	Must be sold at origination.
Monthly pay means no Reg. Z impact and can be written on Real Estate loans, HELOC loans, etc.	Financing a single premium will impact Fed boxes and is not permitted on loans secured by a dwelling.
No programming costs to implement when utilizing the FourPoint™ system.	Changes to origination system can cost thousands of dollars.
90-day implementation.	Implementation times and programming lead times can be substantial.
Packages can include Unemployment, Accidental Death, Skilled Nursing Care, and Hospitalization as well as the standard Death and Disability.	Death and Disability ONLY.
Joint protection on all products & some packages have NO age limits.	Can be limited by statute.
No health questions at enrollment; instant protection; limitations for pre-existing conditions and vesting periods are spelled out and acknowledged.	Underwritten by the insurance company.

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P.O. Box 7001 | Crossville, TN 38557-7001 | 800plateau.com
1-800-PLATEAU (752-8328)