



# CONSUMER ALERT

## Colorado Division of Financial Services

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### Force-Placed Insurance - A Car Loan Danger

Force-placed insurance is an important issue that can cause a borrower to fall far behind on their loan payments and ultimately can cause the repossession of a vehicle. Our office has reviewed many cases where the cost of force-placed insurance has caused a borrower to lose their vehicle, and worse, have their credit record damaged.

Loan documents require the borrower of a motor vehicle loan to maintain a minimum level of insurance coverage. Should the borrower fail to obtain or maintain the specified level of coverage, the lender has the contractual right to obtain coverage on the vehicle to protect the value of the loan collateral. Please note that this coverage will not cover the borrower's equity in the vehicle nor provide any liability coverage.

Force-placed insurance is very expensive because the insurance carrier providing the coverage has no ability to underwrite the vehicle being insured. As such, the owner could have a terrible driving history with many recorded losses but the insurer will be required to issue coverage automatically. Thus, the lender's cost to obtain this insurance is extremely high.

The cost of the force-placed insurance is passed on to the borrower when that cost is added to the loan balance. The entire balance may become immediately due or the loan payment may adjust over time, either over the term of coverage or a twelve month amortization. This is a choice option by the financial institution. The borrower should take steps to fully understand how their financial institution applies the cost of the force-placed insurance to avoid the unintended consequence of becoming immediately delinquent on the loan. Even if the borrower had previously been on time with every single payment for years on this loan, they now have a big problem. The cost of an entire year of very expensive coverage has been added to the loan.

The only good solution is for the borrower to prove that they had adequate insurance the entire time and that the suspected lapse was merely a mistake. This does happen when the lender and the borrower's insurance company have had a communication problem. The borrower should work with the insurer and the lender to set the record straight, and then the lender should remove most or all of the cost of the force-placed insurance from the loan balance.

The next best solution if the borrower's insurance had indeed lapsed is for the borrower to reinstate their prior policy or obtain a new policy to cover the vehicle as quickly as possible. In almost all cases the borrower can find adequate insurance that is substantially less expensive than the force-placed insurance. Once evidence of coverage is provided to the lender, the lender will cancel the force-placed policy and the premium will be prorated to cover only the time of the actual lapse in coverage. However, the prorated premium might still be due immediately. Again, the borrower should find out how their lender will address this issue before obtaining a loan.

In summary, if you are a borrower, keep your vehicle insured to the minimum standards set by the lender. If you are a parent, spouse, co-signer or any other type of interested party, verify that the vehicle has, and maintains, adequate insurance coverage at all times. Discovering the costs and pitfalls associated with force-placed insurance only after they are applied to your loan is to discover them too late.