

An Introduction to
Additional Premiums



Additional Premiums

What is an Additional Premium and how does it affect a premium finance loan?

An “additional premium” is an addition to the original premium for which the borrower has requested financing.

What causes an additional premium?

An additional premium can be the result of one or more of the following items:

1. After the insurance (and financing) is quoted, the insurance carrier found that the information supplied by the borrower was incorrect and the correct information yielded a higher premium.
2. The insured decided to add coverage to an existing policy (i.e. higher limits of liability, etc.)
3. The insured decided to add another policy to his/her insurance portfolio and finance the new policy under the same premium finance agreement.

How does an additional premium effect the calculation of a loan?

There are two ways to calculate an additional premium:

1. The first way involves the calculation of a new loan for only the newly added premium. The installment amount attributable to the new loan is added to the installment amount of the old loan and the combined installment amount is the new installment amount for the combined loan. This is like having a mortgage on your house, then buying a pool and taking out a separate loan for the pool. The monthly payment for the house and the pool is your new loan payment.
2. The second way involves “folding of one loan into the other” and works like this:

- a. First, the balance of the loan on the effective date of the added policy(ies) is determined.
- b. Next, a simulated payoff of the loan is performed. This means that an interest refund is given on the loan as of the date payoff date (effective date of A/P).
- c. Lastly, the amount of the newly financed policy premiums are added to the net balance of the old loan (after refund) resulting in a new Amount Financed.

The new loan figures are then determined based upon the new amount financed (calculated just like a new quote) and a new loan is created.

This is like having a mortgage on your house, then buying a pool and adding the pool loan to your home loan and combining the two loans into one.

Why is an A/P loan only calculated over the remaining installments instead of starting over at payment #1?

For the simple reason that the finance company can't cancel only the A/P portion of a loan. If an insured has a premium finance loan and defaults in making an installment, the original loan may be 3 – 4 installments (for example) into its life while the A/P combined loan may only be 1 or 2 months. If the combined A/P loan started over, the total life of the loan could go from 9 or 10 months to 13 or 14 months. The problem with this of course is that there is no collateral on the original part of the loan after the 12th month! Remember that these are largely annual policies. Cancellation in the 13th month of a loan leaves the premium finance company with no collateral (unearned premium) on the original part of the financed premium. By amortizing an A/P loan over the remaining life of the original loan, the premium finance company ensures that collateral will exist for the life of the combined loan.





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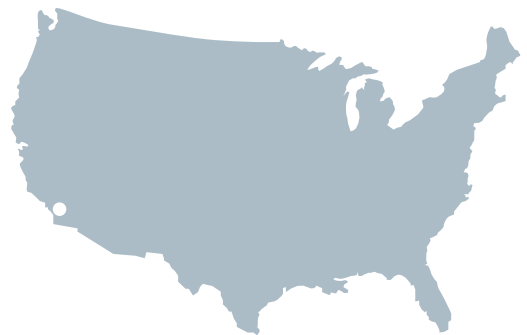
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