

# Financeable and Fully-Earned Taxes & Fees



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## Why are some taxes and fees financeable and others fully earned?

First, it is important to understand what kind of insurance-related taxes and fees there are, and then we can discuss why some are financed and some are not.

**Fees** are typically called “stamping fees” or “policy fees” and are a fee that is being charged in addition to the policy premium to pay for the paperwork involved in writing the policy. Sometimes this fee is charged by the insurance carrier, but more often, it is being charged by the general agent. This fee is similar to any fee one might pay in conjunction with a mortgage loan (i.e. points, documentation fee, etc.) Policy fees described herein are fully earned because once they are paid, there is no refund. Even if the policy is flat/canceled (canceled as of the effective date of coverage) fees of this nature are not refunded.

**Taxes** are usually a surplus lines tax (a tax charged by a general agent or insurance carrier when a less expensive policy is sold in a state where the carrier is not admitted to write business).

Taxes are usually earned over the life of a policy just as the premium is. Therefore, if a policy is canceled sometime before the expiration date, the same portion of the tax is refunded along with the unearned premium. This makes the tax financeable because it becomes part of the collateral of the loan. For example, if a \$1,000.00 policy premium accompanied by a half of one percent tax of \$5.00 were financed and the policy was canceled halfway through, \$500.00 of unearned premium plus \$2.50 of unearned tax would be refunded by the insurance carrier to the premium finance company.

Just because a fee is not refundable in any part, does not mean it cannot be financed. It only means that no portion will be refunded. Without a refund available, some finance companies will not finance a fee, however some finance companies in some cases will finance the fee. Why? Simple...competition.

Here is a simple scenario:

*Finance company “A” has a customer and does not finance the fully earned policy fee on the customer’s policy. Finance company “B”, in an attempt to acquire the customer from the competitor, agrees to finance the policy fee. Finance company “B” knows that if the customer defaults on the loan, the fee will not be refunded and will have to declare it as a loss. Finance company “B” knows this risk and is willing to take it. Finance company “A”, now faces the potential loss of his customer and just might agree to finance the fee.*

It is very important to understand that even though Finance company B knows they are taking a risk by financing the policy fee, the borrower still owes that fee to the finance company even if there is a default on the loan. So, one might reason that there is no risk because even if there is a default, the borrower must still pay the portion of the fee that was not paid back to the finance company. The reason that finance companies assume that financing a fully earned fee is a risk is that if a borrower defaults on a loan, there is not a good chance that the borrower will make good on the balance due. Remember, the borrower just defaulted on the entire loan! Therefore, even though the borrower owes the money, the finance company doesn’t expect the borrower to repay it.





***Input 1***

**Headquarters**

21820 Burbank Boulevard  
Suite 300  
Woodland Hills, CA 91367

**Contact Information**

Sales: 1-888-882-2554 (*choose option#1*)

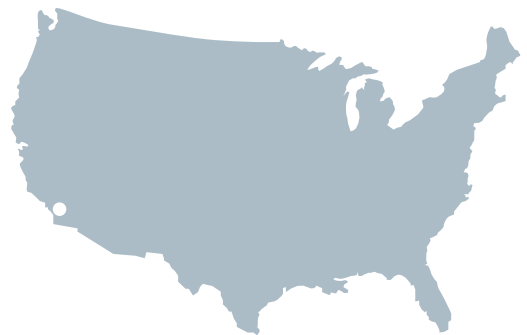
Fax: 1-818-340-1261

Email: [Sales@Input1.com](mailto:Sales@Input1.com)

Technical Support: 1-800-485-5675

Fax: 1-818-340-0047

Email: [i1tech@Input1.com](mailto:i1tech@Input1.com)



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