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BULLETIN 08-26

To: All Premium Finance Companies and All Interested Parties
Re: Premium Finance Agreements
Date: October 10, 2008

The Maryland Insurance Administration ("MIA") recently found, after examination, that several Premium Finance Companies ("PFCs") were calculating and collecting interest on premium finance agreements ("PFAs") in excess of the statutory maximum. Thus, on October 6, 2008, the Commissioner issued a Cease and Desist Order directed to nine (9) PFCs. This Order, Case Nos.: MIA-2008-10-003 through 011 and the related Press Release can be found on the MIA website under Press Releases or the Order can be obtained by using the following link: www.mdinsurance.state.md.us/sa/documents/MIA-2008-10-003-011-PFCInterest.pdf

The purpose of this Bulletin is to remind PFCs that Section 23-304 of the Insurance Article states that finance charges of PFAs are to be computed "at a rate not exceeding 1.15% for each 30 days, charged in advance." While the interest may be charged in advance, in those cases where the PFA does not go to its full term, PFCs must ensure that the interest charged on a cancelled PFA does not exceed the statutory maximum of 1.15% for each 30 days that the PFA was in effect. In an effort to ensure compliance with this statutory requirement, all PFAs filed with the MIA for its prior approval must include an explanatory statement describing exactly how it will calculate the interest owed in the event that the PFA is cancelled prior to its maturity. PFCs will be held accountable for the answers it provides to the MIA and these answers will be examined and reviewed by Market Conduct for verification that PFCs are not charging interest in excess of the statutory maximum.

In addition to the calculation of interest, the MIA would also remind PFCs that in the event that a policy which was premium financed is subsequently cancelled and voided *ab initio*, the PFC is prohibited from collecting any fees as no policy was ever in existence to be financed. Thus, all PFAs shall contain language that makes clear to the applicant/insured that in the event the underlying insurance policy is voided by the insurer or cancelled prior to inception, there will be no interest charged.

Should you have any questions concerning this Bulletin, please contact Dave Diehl, Chief Administrator, Property & Casualty Rates & Forms by email at ddiehl@mdinsurance.state.md.us or by telephone at 410-468-2320.

Ralph S. Tyler, Insurance Commissioner

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