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**COURT OF APPEALS DECISION PROTECTS MARYLAND AUTOMOBILE INSURANCE
FUND POLICYHOLDERS FROM EXCESSIVE FINANCING CHARGES**

Affirms Maryland Insurance Administration's Ruling of 2008

On December 20, 2011, the Maryland Court of Appeals issued an important decision that helps protect tens of thousands of Maryland automobile insurance policyholders. The Court held that the State's largest premium financing companies were engaged in illegal financing practices. Most automobile insurance policyholders are able to set up interest-free installment payment plans for their insurance premiums through their insurance carrier. However, Maryland law prohibits the Maryland Automobile Insurance Fund (MAIF) from accepting installment payments. Instead, any MAIF policyholder who is unable to pay the total policy premium in advance must finance that premium through one of the State's premium finance companies. Maryland law requires all motor vehicle owners to carry automobile insurance. MAIF insures those drivers who are denied insurance coverage by private insurance companies.

This decision held that the method of collecting interest used by the premium finance companies is illegal. The Court affirmed the position taken by the Maryland Insurance Administration in October 2008 that, under Maryland law, premium financing companies are prohibited from collecting interest on loans to policyholders in excess of 1.15 percent for any 30-day period. Premium financing companies have been using an accounting method that "front loads" interest in the early part of the loan period. If a policyholder cancels a policy early in the loan term, which occurs in the majority of PFC loans, the PFC collects more interest than otherwise would be permitted for each 30-day period. The Court of Appeals stated that when a premium finance agreement is canceled early, the interest calculation method used by the premium finance companies, "operates to the disadvantage of consumer because the interest charges are weighted more heavily in the early months of the contract repayment period." The Court underscored that the statute in question "was designed to eradicate and eliminate... 'usurious interest and excessive service charges.'"

"The Maryland Insurance Administration is pleased with the outcome of this case, which protects Maryland consumers from usurious financing practices," said Insurance Commissioner Therese M. Goldsmith.

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