# Avoid the Pain of Stacked CPI Premium

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When billing for collateral protection insurance (CPI), "stacking" premium to the end of a loan might seem to be the easiest way to handle the additional charge. But end-of-loan payments cause two key problems for credit unions and their borrowers.

1. Member dissatisfaction and confusion: Members often become dissatisfied when they discover CPI premiums are due at the end of their loan agreements. Asking members who believe their loans are paid off to pay end-of-loan premiums for insurance no longer in force creates confusion about why additional money is due.
2. Collection challenges: Borrower confusion often leads to significant collection challenges for credit unions, making it harder and more costly for credit unions to manage confused, upset members.

You can change these outcomes to prevent member issues and collection issues at your credit union. The NCUA recognizes the practice of stacking premiums to create a balloon payment at the end of the loan creates problems. Instead, the NCUA strongly recommends that premiums be amortized.

**Re-Amortization Benefits You and Your Members**

Moving away from stacked payments to re-amortized loans has several key benefits.

- ✓ **Prevent end of loan collection problems:** Re-amortizing loans to incorporate CPI premium payments helps avoid collection problems and reduce charge-offs.
- ✓ **Treat members fairly:** Re-amortization is the fairest method of charging CPI premiums to borrowers, allocating costs during the loan in which the benefit of CPI is received.
- ✓ **Motivate members to comply with loan agreements faster:** By having CPI premium added to monthly loan installments, borrowers may be motivated to comply with loan insurance requirements and obtain or reinstate private insurance.
- ✓ **Maintain positive member relationships:** Avoiding end-of-loan problems also helps maintain positive relationships with borrowers, allowing credit unions to focus on the next business opportunity rather than premium collection on an existing loan.

If you haven't already, ask your CPI provider to help you implement re-amortization. Your provider should be able to make the process easy by providing several different re-amortization options and working with your core processor to automate the process.

Collateral protection insurance is designed to safeguard credit unions against the risk of uninsured losses to their loan portfolio. The program works by charging premiums only to those borrowers who are non-compliant with the terms of their loan agreement. Following NCUA guidance against stacking CPI payments to the end of the loan is a best practice all credit unions should follow.

*In 2009 CUNA Mutual Group and State National Companies formed an alliance to deliver collateral protection insurance in the credit union marketplace. Trace Ledbetter is the Senior Vice President of Service at State National. Contact State National at 817.265.2000.*