

APR 29 1999

STATE OF ARIZONA

DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE
BY Kathy

In the matter of:

ASSOCIATES INSURANCE COMPANY,)	99A-080
ASSOCIATES FINANCIAL LIFE)	
INSURANCE COMPANY AND AFSC)	Administrative Order and Consent
AGENCY, INC.)	There to
)	
)	
)	

The Director of Insurance (the "Director") of the Arizona Department of Insurance (the "Department") makes the following Findings of Fact, Conclusions of Law and enters the following Order:

FINDINGS OF FACT

1. The Director is charged with the enforcement of Title 20, Arizona Revised Statutes, relating to insurance.
2. Associates Insurance Company ("Associates Insurance") is an Indiana corporation transacting a business of insurance in Arizona and authorized to transact business as a property and casualty insurer pursuant to A.R.S. § 20-206.
3. Associates Financial Life Insurance Company ("Associates Life") is a Tennessee corporation transacting a business of insurance in Arizona and authorized to transact business as a life and disability insurer pursuant to A.R.S. § 20-206.
4. AFSC Agency, Ins. ("AFSC") is an Arizona corporation transacting a business of insurance in Arizona and licensed as a property and casualty and life and disability agency pursuant to A.R.S. § 20-287.
5. Associates Insurance, Associates Life and AFSC (collectively, "Associates") sell insurance products in connection with consumer loans made by consumer lenders licensed pursuant to the Arizona Consumer Lender Law, A.R.S. §§ 6-601 *et seq.*

CONCLUSIONS OF LAW

1. The Director has jurisdiction over this matter.
2. The Director has authority to issue an administrative order to ensure continuing compliance by Associates with the requirements of A.R.S. Title 20 in connection with the sale of insurance products in connection with consumer loans in licensed consumer lender offices.

ADMINISTRATIVE ORDER

IT IS HEREBY ORDERED:

1. Associates shall hereafter not sell or offer for sale any insurance products in connection with consumer loans in a licensed consumer lender office, unless the forms and rates therefor have been filed with, and not disapproved by, the Director in accordance with A.R.S. Title 20.
2. Associates shall not permit any person acting on its behalf to solicit applications for, sell or offer for sale any insurance products in connection with consumer loans in licensed consumer lender offices unless:
 - A. Such person is a regular salaried office employee of a corporate insurance agent or broker licensed to transact the kinds of insurance involved in the transaction in the licensed consumer lender office; or
 - B. Such person is an individual agent or broker licensed to transact the kinds of insurance involved in the transaction; or
 - C. Such person is not required to be licensed as an agent or broker pursuant to A.R.S. § 20-1612.B.
3. Associates shall hereafter ensure that not less than one individual in each consumer lender office in which insurance is transacted is individually licensed to transact the kinds of insurance transacted in such office, except as provided in A.R.S. § 20-1612.B.
4. Associates shall not hereafter issue any policy of personal property insurance covering a subject of insurance resident, located or to be performed in this state unless the policy or endorsement thereto is countersigned by its licensed service representative, managing general agent or licensed agent resident in this state.
5. Associates licensed service representative, managing general agent or licensed agent resident in this state shall not countersign any insurance policy or endorsement thereto as required by A.R.S. § 20-229, until after the borrower's notations and signature have been obtained on the consumer loan documentation, where appropriate.
6. With respect to compliance by Associates with the record retention requirements of A.R.S. Title 20, including without limitation A.R.S. §§ 20-156 and 20-302:
 - A. It is Associates' stated policy to comply with such record retention requirements.
 - B. Associates' stated policy complies with A.R.S. Title 20 which requires, in general:

- (i) An authorized insurer to preserve its accounts, records, documents and files relating to its affairs, transactions and assets in order to permit the Director to examine such insurer as often as the Director deems advisable.
- (ii) A licensed insurance agent or broker to keep at its place of business the usual and customary records pertaining to transactions under its license for at least three (3) years immediately following the date of completion of such transaction.

C. Associates' stated policy complies with A.R.S. Title 20 which requires, specifically as to refunds of unearned insurance premiums:

An authorized insurer and a licensed insurance agent or broker to preserve for the prescribed period such records as are necessary to ensure and evidence appropriate refunds of unearned premiums in the event of cancellation of any insurance sold by or through Associates in connection with a consumer loan, which shall include records of:

- (i) the term of such insurance;
- (ii) the total premium due for such term of such insurance;
- (iii) the total premium paid for such insurance;
- (iv) the date of cancellation;
- (v) the amount of premium refunded;
- (vi) evidence of the payment and receipt of such refund.

D. Associates shall hereafter continue to comply with A.R.S. Title 20.

7. With respect to personal property insurance offered for sale or sold by Associates in connection with consumer loans in licensed consumer lender offices:

A. Associates shall not represent orally or in writing to any consumer:

- (i) That such personal property insurance will pay in addition to any other insurance covering the same property;
- (i) That such personal property insurance will result in excess funds for the consumer over and above the amount paid by any insurer for indemnification for loss or damage to covered personal property; or

- (ii) Any statement that in any way suggests or implies that the consumer will or may recover for loss or damage to covered property over and above a single indemnification for such loss or damage.

However, Associates may reiterate any representation regarding insurance offered for sale or sold in a licensed consumer lender office that is contained in an insurance form filed with, and not disapproved by, the Director.

- B. Associates shall provide a Notice To Secured Loan Applicant Regarding Personal Property Insurance, substantially in the form attached hereto as Exhibit A or such other form as approved from time to time by the Director, printed in at least 10 point type. Such Notice shall be provided promptly upon a determination that a consumer loan will be secured by personal property, but in no event later than immediately prior to the consumer receiving the disclosures required by the Federal Truth in Lending Act, 15 U.S.C. §§ 1601 *et seq.*, regarding such personal property secured consumer loan. Associates shall retain a signed copy of this Notice in its records.
- C. If a consumer at any time requests a quote for the premium for personal property insurance offered for sale by Associates in connection with a consumer loan, Associates shall advise the consumer orally or in writing of the premium. If the consumer so requests, Associates shall provide the consumer with the total amount of the consumer loan and monthly loan payments both with and without personal property insurance elected by the consumer.
- D. At the closing of a consumer loan, Associates shall:
 - (i) Identify and describe to the consumer each document included in the documentation evidencing the consumer loan;
 - (ii) Identify and describe to the consumer each insurance product included in the consumer loan contract and obtain the consumer's oral confirmation that the consumer elects to purchase such insurance product;
 - (iii) If the consumer has elected to assign personal property insurance coverage from another qualified insurance company to Associates, then:
 - (a) Associates shall accept as sufficient to evidence such assignment for purposes of closing the consumer loan:
 - (1) a loss payee endorsement in favor of Associates provided by or before the consumer loan closing;

- (2) a copy of the declaration page of the policy to be assigned showing its assignability to Associates provided by or before the consumer loan closing;
 - (3) a letter from the consumer's insurance agent or broker confirming the existence of insurance coverage and the assignability of the coverage to Associates provided by or before the consumer loan closing; or
 - (4) a telephone confirmation from the consumer's insurance agent or broker confirming the existence of insurance coverage and its assignability to Associates provided by or before the consumer loan closing.
 - (b) if a loss payee endorsement in favor of Associates has not been provided by the time of the consumer loan closing, Associates shall:
 - (1) orally reiterate to the consumer that a loss payee endorsement in favor of Associates must be provided within thirty days after the consumer loan closing;
 - (2) offer and reasonably assist the consumer in obtaining such a loss payee endorsement by contacting the consumer's insurance broker or agent; and
 - (3) advise the consumer that if such a loss payee endorsement is not provided within thirty days after the consumer loan closing, Associates may require the consumer to buy personal property insurance protection from Associates.
8. Prior to consummation of the consumer loan, Associates shall disclose to the consumer in writing that credit life insurance and/or credit disability insurance are voluntary and not required to obtain the consumer loan.
9. Unless the non-filing insurance policy relative to the initial consumer loan will lapse sometime during the term of the renewal of the consumer loan, Associates shall not charge, contract for or receive any amount for non-filing insurance in connection with the renewal of the consumer loan if:
 - A. an amount was charged, contracted for or received by Associates for non-filing insurance in connection with the initial consumer loan,
 - B. the renewal occurs within the term of the non-filing insurance policy (which term shall be the same period of time as the period of time that a financing statement is effective pursuant to Chapter 9 of the Uniform Commercial

Code, Title 47, Arizona Revised Statutes, as amended from time to time) and

- C. the property securing the consumer loan remains primarily the same.
10. Associates shall revise its documentation and employee training procedures and materials, including without limitation its product knowledge manuals, to the extent necessary to be consistent with, and ensure continued compliance with, the terms hereof.
 11. Prior to commencing any proceeding to enforce this Administrative Order at any time, the Director shall give Associates written notice of any claimed non-compliance with this Administrative Order and Associates shall have 30 days in which to cure any claimed non-compliance.
 12. This Administrative Order shall be binding upon Associates, its successors and assigns and upon those persons in active concert or participation with Associates who receive actual notice of this Administrative Order.

DATED AND EFFECTIVE this 29th day of April, 1999.



CHARLES R. COHEN
Director of Insurance

CONSENT TO ADMINISTRATIVE ORDER

1. Associates has reviewed the foregoing Findings of Fact, Conclusions of Law and Administrative Order.
2. Associates admits the jurisdiction of the Director of the Arizona Department of Insurance and admits the Findings of Fact and consents to entry of the foregoing Conclusions of Law and Administrative Order.
3. Associates is aware of its right to notice and a hearing at which it may be represented by counsel, present evidence and cross-examine witnesses. Associates irrevocably waives its right to such notice and hearing and to any appeals relating to this Consent to Administrative Order.
4. Associates states that no promise of any kind or nature whatsoever, except as expressly contained in this Consent to Administrative Order, was made to induce it to enter into this Consent Order and that it has entered into this Consent to Administrative Order voluntarily.

5. Associates acknowledges that entry of the Administrative Order by the Director of the Arizona Department of Insurance is solely for the purpose of replacing the Stipulated Judgment in *State of Arizona, ex rel. Grant Woods, et al. v. Associates Financial Services Company of Arizona, Inc., et al*, Maricopa County Superior Court Cause No. CV92-21853, and does not preclude the Arizona Department of Insurance or any other agency or officer of the State of Arizona or its subdivisions or any other person from instituting proceedings, whether civil, criminal, or administrative, as may be appropriate now or in the future.

Date: 4/23/99, 1999

ASSOCIATES INSURANCE COMPANY,
an Indiana corporation

By R. Stephen Nichols
R. Stephen Nichols
Senior Vice President

ASSOCIATES FINANCIAL LIFE
INSURANCE COMPANY, a Tennessee
corporation

By R. Stephen Nichols
R. Stephen Nichols
Senior Vice President

AFSC AGENCY INC.,
An Arizona corporation

By Donald R. Misner, Jr.
Donald R. Misner, Jr.
Senior Vice President

EXHIBIT A

NOTICE TO SECURED LOAN APPLICANT
REGARDING PERSONAL PROPERTY INSURANCE

As used in this Notice, the words "we," "us" and "our" mean Associates Financial Services Company of Arizona, Inc. and the words "you" and "your" mean the applicants for a loan from us.

You have applied for a loan from us. The loan will be secured by personal property. You must maintain insurance on that personal property and our interest in it.

You may satisfy this personal property insurance requirement by either:

1. You can assign your existing insurance policy or you can purchase a new insurance policy. You can choose any insurance company authorized to transact insurance business in Arizona that is acceptable to us. You must assign your insurance coverage to us. You must provide us with evidence of this assignment prior to the closing of your loan. This assignment can be evidenced by:

- (a) A loss payee endorsement in our favor; or
- (b) A copy of the declaration page of your policy showing its assignability to us, but you must provide us with a loss payee endorsement in our favor within thirty days of loan closing; or
- (c) A letter from your insurance agent or broker confirming the existence of insurance policy and its assignability to us, but you must provide us with a loss payee endorsement in our favor within thirty days of loan closing; or
- (d) Telephone confirmation from your insurance agent or broker confirming the existence of your insurance policy and its assignability to us, but you must provide us with a loss payee endorsement in our favor within thirty days of loan closing.

2. You can obtain your insurance from us. If you obtain your insurance from us, your insurance premium will be added to the principal amount of your loan and will be subject to finance charges. Insurance you obtain from us will be in the amount of either your consumer loan or the reasonable value you designate of your insured property. However, the amount of your insurance will not be higher than the designated value of your insured property or as otherwise permitted by law.

You can request a quote for the premium of our personal property insurance at any time. If you request we will provide you with the total amount of your loan and the amount of your monthly loan payments, both with and without personal property insurance.

You acknowledge receiving a copy of this Notice to Secured Loan Applicant regarding Personal Property Insurance prior to completion of the documents evidencing your loan.

Borrower

Borrower

Date

Date

A copy of the foregoing mailed
this 29 day of April, 1999

Sara M. Begley, Deputy Director
Gerrie L. Marks, Executive Assistant for Regulatory Affairs
Catherine O'Neil, Consumer Legal Affairs Officer
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Kathy Childers