

**Pacific Resources Corporation**  
**Presents**  
**INSTANT POINT OF LOAN ORIGINATION PHYSICAL DAMAGE ONLY**  
**COLLATERAL PROTECTION INSURANCE (“POLO PD”)**

**-GENERAL PROGRAM OVERVIEW-**

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**INTRODUCTION**

POLO PD is a collateral protection insurance product that has been designed specifically to accommodate the business requirements of sub-prime and buy-here-pay-here lenders. (Collateral Protection Insurance, or CPI, refers to physical damage insurance placed on loan collateral by a creditor, and charged to the debtor, to protect the creditor’s interest in the collateral in response to the debtor’s failure to provide proof that that collateral is otherwise insured). Although many sub-prime lenders could benefit from CPI coverage, standard CPI programs are usually unworkable in the sub-prime environment because of the challenge of collecting CPI premiums from individual debtors.

POLO PD differs from traditional CPI in two important ways. First, POLO PD anticipates that a high percentage of customers will not maintain required physical damage insurance. The program therefore includes detailed disclosures that allow the lender to establish with customers the exact cost of coverage, including the increase in the customer’s regular installments, at the point of loan origination, so that both parties can better plan for the premium charge. Second, POLO PD premium may be charged to the lender in monthly installments, thereby avoiding the need to extend additional credit to customers by “fronting” annual CPI premium.

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**PROGRAM ELEMENTS**

The POLO PD program consists of the following major elements:

1. **Master Collateral Protection Policy** - The master policy is issued in the lender’s name and it provides the authority for the individual Notices of Insurance issued on uninsured collateral. The policy is issued on a “continual until canceled” basis.
2. **POLO Finance Agreement Addendum** – The Addendum is a disclosure document that serves dual purposes. First, it highlights the borrower’s obligation to maintain physical damage insurance over the term of the finance agreement. Second, it explains that the lender will allow the customer to satisfy the insurance requirement through the lender’s POLO PD program in the event that the borrower does not provide evidence of insurance. The Addendum includes a detailed disclosure of the coverage restrictions, the borrower’s rights and cost of the insurance. The addendum requires the borrower to acknowledge either that he will provide evidence of insurance prior to closing the finance transaction or that he has not yet obtained required insurance and is aware that the lender will place insurance if coverage is not provided within 30 days.
3. **Insurance Certificate** – This form evidences placement of insurance by the lender and is issued directly to the borrower upon placement if the borrower’s insurance is not received within thirty days of the finance transaction. The certificate identifies the insured collateral, term of coverage and premium charge (total and monthly). The certificate also states that the coverage is limited to the lender’s interest in the collateral and that it does not include liability insurance.
4. **Notice of Placement of Insurance** – This notice accompanies the certificate as a cover letter and explains in detail the nature of the POLO PD coverage.

5. **Program Administration System** – The policy admin system is managed by the program administrator, LRS Financial. The system is used to: (1) issue certificates and accompanying Notices of Placement, and to maintain a record of all POLO PD transactions, and (2) create detailed weekly/monthly billing statements for the lender.
6. **Lender Agreement** – The Lender Agreement is a statement that must be signed by the lender prior to the program inception, enumerating certain mandatory and prohibited practices in connection with the POLO PD program. The purpose of the document is to establish the insurer's and Administrator's expectations for maintaining an insurance program consistent with state law. The Lender Agreement is not a legal document nor is it intended to replace any part of the lender's best practices procedures or compliance standards.

### **ADDING AND DELETING POLO PD COVERAGE**

1. At the time of loan origination the lender informs the borrower of: (1) the requirement to maintain physical damage insurance on the borrower's auto for the term of the loan, and; (2) the availability of the POLO PD program to satisfy that requirement if the borrower is unable or otherwise disinclined to provide his own insurance.

If the borrower does not have proof of insurance at the time of the transaction, the lender creates and prints a Finance Agreement Addendum from the Administration System<sup>1</sup> for the borrower's review and acknowledgement. The Addendum documents the lender's insurance requirements and the nature and limitations of the POLO PD option, including the cost of the POLO coverage in total and as a monthly charge.<sup>2</sup> The Addendum also requires that the borrower acknowledge either that he will provide evidence of insurance prior to completing the transaction or that he does not have evidence of insurance, in which case he understands that the POLO coverage will be added automatically in thirty (30) days at his expense, if he does not provide evidence of insurance.

2. Thirty-one (31) days after the date of the Addendum the Administration System generates a POLO PD certificate and Notice of Placement of Insurance, which the Administrator mails directly to the borrower. If the borrower obtains and provides proof of required insurance during the first thirty (30) days, the lender may either cancel the POLO coverage on the Administration System or fax the coverage to the Administrator for cancellation.

NOTE: The POLO PD certificate is issued with coverage and premium retroactive to the date of the credit agreement.

3. The Administrator produces billing statements weekly or monthly at the lender's preference; however, in either case the insurance premium for each individual borrower will be billed on a month-to-month basis. New POLO PD placements appears on the first billing statement after the certificate/Notice is issued
4. **Deleting Coverage** – POLO PD coverage charged to an individual borrower must be cancelled if:

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<sup>1</sup> To create an Addendum the lender enters basic customer, loan and collateral information on the system. The Administrator may handle the process if the lender does not wish to access the system directly.

<sup>2</sup> The lender's premium cost is based on the fixed rate per month multiplied by the borrower's original loan balance, and is written for the lesser of eighteen (18) months or the term of the loan. Example: a \$10,000 loan for 24 months might produce a premium charge of \$10,000 x 1.25%, or \$125 per month for eighteen months.

- a. the borrower provides evidence that he has obtained required insurance from another licensed agent and/or authorized insurance company;
- b. the borrower pays off the finance agreement, or;
- c. the lender repossesses the vehicle

The lender may also choose to cancel coverage on a borrower if the lender is unable to collect the premium reimbursements.

To cancel coverage, the lender provides written request to the Administrator by fax or email. Any premium refund resulting from cancellation will be reflected on the next billing statement.

### **CLAIM HANDLING**

The Administrator handles all claims.

**Borrower Claims** – Although POLO PD is technically a single interest insurance that protects only the lender’s interest the lender is obligated to submit claims on behalf of borrowers if the borrower has been charged for the cost of the insurance. Borrower claims are adjusted by the Administrator according to standard claims procedures. Claim proceeds are paid to lender and must be used to the benefit of the borrower; however, the lender may choose to apply funds toward repair or as credit against the borrower’s loan balance.

**Lender Repossession Claims** – To the extent reasonable, the Administrator may agree to use damage repair estimates, if accompanied by photos, provided by the lender to adjust repossession claims.

### **ADDITIONAL LENDER BENEFITS OF POLO PD**

The POLO PD program may be structured to provide additional financial benefits to the lender beyond the security of the physical damage coverage. On a case-by-case basis, and as allowed by state law, the insurer may offer one of the following:

- **Commissions** – Subject to state producer licensing law, the insurer will negotiate a commission payable directly to the lender.
- **Expense Reimbursement** – The insurer, Administrator and Lender may agree to reimbursement payable to the lender for any responsibility assumed by the lender that would otherwise be handled by either of the other two parties to the program.
- **Retrospective Premium**– The insurer may allow the lender to share in the underwriting performance of the program.

**TO SIGN UP FOR THE PHYSICAL DAMAGE COLLATERAL PROTECTION PROGRAM PLEASE PRINT OUT THE “LRS FINANCIAL SET UP FORM (POLO PD) AND FAX TO OUR OFFICE AT (818) 709-4154**

**IF YOU HAVE ANY QUESTIONS PLEASE CALL (800) 701-6036**

## LRS FINANCIAL SET UP FORM (POLO PD)

Client Number \_\_\_\_\_ Insurance Company \_\_\_\_\_  
 State \_\_\_\_\_ Effective Date \_\_\_\_\_

**NAME OF DEALERSHIP/LENDER:**

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

PO Box/Street Address:

City, ST, Zip:

Principal Contact: Phone

Program Contact: Phone

Fax:

Email:

**SHORT FORM QUESTIONNAIRE:**

Highest/Average starting loan balance	\$	/\$	
Highest /Average vehicle retail value	\$	/\$	
Number of finance sales per month			
High/Average/Low interest rate charged	%/	%/	
Most common payment schedule (circle)	Weekly	Bi-weekly	
	Semi-monthly	Monthly	
Is lender a dealer, dealer-owned finance co., or independent finance co.?			
Repossession rate		%	

What source does lender use to determine vehicle retail value?

Briefly describe collection and repo procedure

Please provide a sample credit agreement and/borrower Agreement to Provide Insurance

**RATES: (to be completed by LRS)**

ALL-RISK PHYSICAL DAMAGE COVERAGES  
 RATE (% of balance)

**NOTES: (to be completed by LRS)**

SUBMITTED DATE:

PRODUCER:

SENT TO: