

SLATER ALL LINES INSURANCE SCHOOL

Thank you for purchasing our online study program for the Washington State Credit Exam. Before you begin studying, please read this page thoroughly. As soon as you pass your state exam, we encourage you to email or call us with feedback about the state exam questions.

The study program you purchased from Slater All Lines Insurance School gives you a 90-day access pass to our Online Classroom, so ***please start studying right away and schedule your state exam within a month or so of the purchase date of this program.*** Memorize the material on these online PDFs and make sure to **take the online practice exams several times** to familiarize yourself with how to apply what you have learned to the sometimes difficult and ambiguous exam questions. You will need 70% to pass.

The Credit state exam consists of 50 multiple-choice questions, administered by PSI Testing Company. **When you are ready to schedule your state exam, please contact PSI Testing Company at 800-733-9267 (1) (4) or home.psiexams.com.** *Remember that there are no required study hours or completion certificates that need to be presented to PSI Testing Company for you to be eligible to sit for the state exam.* We do, however, recommend that you study very hard for this exam.

It is \$49 to take the Credit Exam. If you pass your exam, the testing center will provide you with a test report that indicates you have passed the exam. If you do not pass the exam, the testing center will provide you a test report that tells you your score on the different exam sections. There is a \$49 charge to retake the Credit Exam.

PSI will also do your **fingerprints**. *Electronic fingerprints are required by the State of Washington.* You must schedule and pay (about \$55) for the electronic fingerprints when you register for the exam by calling [1-866-761-8069](tel:1-866-761-8069) or visiting home.identogo.com. No license will be issued until a background check is completed.

Once you pass your state exams, you will have 6 months to submit all of your paperwork and become licensed. After 6 months, if you are not licensed you will need to take and pass the exam again.

After you have passed your state exam, you will need to apply for a license at insurance.wa.gov, middle tab for producers, apply for license. You must attach your scoresheet to the application or fax it in separately. *(Please note that your company/manager usually handles this paperwork for you.)*

- Credit License Fee = \$20.00 and Filing Fee = \$5.00

Test Center Addresses and directions: (We included the ones closest to our location. Other testing sites are located in Ellensburg, Olympia, Richland, Spokane, Tacoma, Vancouver and Yakima. See home.PSIexams.com for other locations.)

Federal Way (Seattle)

500 South 336th St., Suite 220
Federal Way, WA 98003

- From I-5 to 320th street. Turn left on International (Pacific Way) (99). Turn right on 336th and pull in the 500 building parking lot.

Bellevue (Seattle)

Newport Place
4122 Factoria Blvd. S. E, Suite 303
Bellevue, WA 98006

- From I-405 - Exit 10 for Coal Creek Parkway towards Factoria. Turn left onto 128th Ave SE/Factoria Blvd SE. The test center will be on the right.
- From 1-90 E - Take Exit 10B. Turn Right onto 128th Ave SE/Factoria Blvd SE. Make a U-turn at SE 41st Pl. The test center will be on the right.

Arlington

18810 59th Dr. NE, Bldg. 44A
Arlington, WA 98223

- From Interstate 5 take the WA-531/172nd St NE exit, exit 206. Go East on 172nd St NE. Turn left on 59th Ave NE. Turn left on 188th St NE. The test site will be straight ahead. It is a 2-story grey building that says Arlington Flight Services on it.

Everett

1010 S.E. Everett Mall Way, Suite 208
Everett, WA 98208

- **North** on I-5, take Exit 189
(WA-526 W/WA-527 N to Mukilteo/Whidbey Island Ferry/Broadway/Everett Mall Way).
Bear right to WA-526 W / WA-527 N.
You will see a sign reading "WA-527 N to Broadway/Everett Mall Way".
At light, turn left on Bothell-Everett Hwy (SR-527) and go north for 0.5 mile to light at Broadway – get into left turn lane.
Turn left onto Broadway which then becomes SE Everett Mall Way.
Go approx. 0.8; just past light at West Mall Dr. get into middle left/right turn lane and turn left immediately before the Chevron gas station.
Proceed down lane approx. one block to 1010 behind the gas station.
- **South** on I-5, take Exit 189
(WA-526 W/WA-527 N to Mukilteo/Whidbey Island Ferry/Broadway/Everett Mall Way).
You will see a sign reading "To Everett Mall Way".
Take ramp to right to light at Everett Mall Way.
Proceed through light onto SE Everett Mall Way (stay in left lane).
Go approx. 0.8; just past light at West Mall Dr. get into middle left/right turn lane and turn left immediately before the Chevron gas station.
Proceed down lane approx. one block to 1010 behind the gas station.

TIPS FOR TAKING THE EXAMINATION

1. Remember that there are about 10-20 non-score-able questions within each state exam. Sometimes these questions appear as questions with no correct answer and sometimes the topics are not related to insurance as it pertains to what you will be scored on. **DO NOT** let these difficult and ambiguous questions throw you off. Just keep in mind that everything you can be graded on is in this textbook and the online computer program!
2. Always get a good night's sleep before the exam. In order for important information to remain fresh in your mind, study the class material every day until you do take the exam.
3. You will be taking your exam on a computer. Go through the exam and answer the easy questions first; skip the more difficult questions. Do not spend time and energy on difficult questions the first time around. With that being said, try to not second guess your answers to questions that you have already completed, because if you have studied the material thoroughly, your first answer usually will be the correct answer.
4. As you answer more and more questions on the test, your anxiety should ease and your ability to answer the questions will get better. **Read every question twice and eliminate all of the incorrect answers first before choosing the best answer.**
5. Please remember that there is material that has similar functions and similar sounding names. For example, "Guaranteed Insurable" and "Guaranteed Renewable" sound similar but have different meanings. There will be exam questions that will try to mix you up by using the similar material. Make sure you read each exam question and possible answers carefully, making sure the answer you choose matches the question being asked.
6. **You have covered all of the material in this course that you will be tested on.** We suggest you read the text book three to five times and do all of the quizzes online at least twice to pass the test. A number of studies have concluded that students retain material at a 90% rate if they learn by **doing**, rather than a 10% rate if they learn by just **reading**. It may also be helpful for you to read the textbook out-loud to insure you hear the material again. Slater All Lines Insurance School believes that using our Online Classroom practice exam simulations is critical in first-time test success, as it is great practice and will help build your confidence.
7. If you don't pass the test on the first try, don't worry. **Take it again as soon as possible** so that you will still have all of the material fresh in your mind. Immediately go back through all of the material and try to find any questions that you might have answered incorrectly. When you retake the exam, hopefully you won't make the same mistakes.
8. Just remember, even if it takes you more than once to pass the test, your future clients are not going to ask you how many times you had to take the exam before you passed it. **If you feel nervous or stressed, get up and stretch, take some deep breaths and remember that you will have plenty of time to finish.**
9. Passing the exam depends not only on how well you learn the subject matter, but also on how well you take exams.

- A. Read the full question twice before marking an answer.**
- B. Avoid jumping to conclusions and watch for key words or phrases.**
- C. Interpret the unfamiliar questions.**
- D. Identify the intent of the question.**
- E. Memorize key points.**
- F. Beware of changing your initial answer to questions.**

A. Read the full question twice before marking an answer. You cannot expect to answer a question correctly if you do not know what it is asking. If you see a question that seems familiar and easy, you might anticipate the answer, mark it, and move on before you finish reading it. This is a bad error on your part. Be sure to read the full question before answering it, as some questions are designed to trap exam takers. For example:

Mr. X incurs a medical bill of \$1,100. His major medical plan has a \$100 deductible and 80% - 20% coinsurance. How much of this bill will the insurer have to pay?

- a. \$100 b. \$200 c. \$300 d. \$800

The correct answer is d. This is an easy question for someone to answer if they had read the question carefully because the question is asking about the insurer, NOT the insured (consumer). The insured would pay \$300 of this bill and the insurer would pay \$800. By reading this question too quickly you may answer it incorrectly.

B. Avoid jumping to conclusions and watch for key terms. The questions on the pre licensing exam are often misleading. To avoid being misled by seemingly obvious answers, make it a practice to read each question and each answer twice before making your choice.

While reading the questions, look for certain key terms such as, only, always, never, must, none or all, and except. Some terms frequently used are: all, except, and none except. Usually when a question starts with all or none and ends with except, you are looking for an answer that is opposite to what the question appears to be asking. For example:

All of the following injuries to an insured are exclusions in a medical policy, **EXCEPT:**

- a. intentional injury caused by the insured
- b. an employee's injury which is work related
- c. insured's broken foot caused at home when he fell down the stairs
- d. injury while the insured was in the commission of a crime

C is the correct answer. If you didn't read the question carefully and catch the term EXCEPT, you may have answered A, B, or D which are actually excluded (NOT COVERED) in medical plans.

C. Interpret the unfamiliar questions. Do not be surprised if some questions on the test seem unfamiliar at first. If you have studied the material, you will have the information to answer the questions correctly. The challenge may be a matter of understanding what the question is asking. Some questions will be presented indirectly and you may have to interpret the meaning of a question before you answer it. For example:

Mr. X's premium was due on March 1st. He has a medical claim on March 5th. The insurance company pays the claim. What provision in a policy allows this payment?

- a. Incontestability period
- b. Entire contract provision
- c. Grace period
- d. Assignment provision

The answer is C, the grace period. This question is asking you to apply knowledge of a provision in life and disability contracts to a "what if" scenario. Or a question could be asked like this...

A Grace Period is a period of time that ____.

- a. allows insurance companies to pay claims
- b. delays the payment of a claim
- c. the insured is still covered by insurance even though the premium has not be paid
- d. no claims would be paid because the premium was not paid

The correct answer is C. At first glance, the two questions appear to be different, but in fact they test your knowledge of the *grace period*. Be aware that the pre licensing exam may test your knowledge from two different angles.

D. Identify the intent of the question. Many questions on licensing exams supply so much information that you may lose track of what is being asked. This is often the case in a story question. For example:

Mr. X owns a life policy on himself and has named his brother, Mr. Z, as the revocable beneficiary. One year later Mr. X marries Mrs. X. Mr. X has no children of his own, but Mrs. X brings with her two children from her previous marriage. Mr. X now wants to change the beneficiary from Mr. Z to Mrs. X. How will this be done?

- a. Mrs. X must request the change in writing to the insurance company.
- b. Mrs. X's children must request the change in writing to the insurance company.
- c. Mr. X must request the change in writing to the insurance company.
- d. Mr. Z must request the change in writing to the insurance company.

C is the correct answer because Mr. X owns the policy. A clue to the correct answer is the end of the question. Who has the right to choose or change a beneficiary? Only the owner of the contract may request changes in the insurance policy. Take time to identify what the question is asking. However, your ability to do so assumes you have studied sufficiently. You will not answer questions correctly if you do not know the material.

E. Memorize key points. Reasoning and logic will help you answer many questions, but you will have to memorize a good deal of information. In our material, a lot of information is bolded or italicized, and online material adds the benefit of color. Obviously, items which are bolded, italicized and/or in color would be things to memorize. A lot of difficulty in passing the pre licensing exam is the volume of material you will need to know.

Avoid changing your answers. Never change any of your answers unless you know for sure that your original answer is incorrect. Your first impression is usually the correct one. However, some of the questions you answer later on will actually answer or clarify previously answered questions. If that is the case, do NOT go back to find that question. You have something to make notes on, make a note. Review when you are done and ONLY change the answers you know for certain are incorrect.

CREDIT LIFE & DISABILITY (ACCIDENT and HEALTH) INSURANCE

A. Purpose/Requirements for Purchase - Credit life insurance is a policy issued on the life of a borrower with the creditor named as beneficiary to cover the **repayment of a loan** in the event the borrower dies before the loan has been repaid. It will pay death benefits whether death occurs accidentally or by natural causes. *Credit insurance may be written as an individual policy covering a single debtor, or it can be sold to a master policy owner on a group basis to cover more than one debtor.*

- ***The death proceeds or face amount of the policy may not exceed the indebtedness at the time of death.***
- All credit insurance must be evidenced by an individual policy, or in the case of group insurance, be a certificate of insurance. ***It is the responsibility of the insurer that these policies or certificates are provided to the debtor and must be delivered to the debtor within 30 days upon acceptance of the insurance by the insurance company.***

There are four main types of credit insurance:

- **Credit Life Insurance**: Pays off all or some of the loan if you die during the term of coverage.
- **Credit Disability Insurance**: Also known as credit accident and health insurance, it pays a limited number of monthly payments on a specific loan if you become ill or injured and cannot work during the term of coverage.
- **Credit Involuntary Unemployment Insurance**: Also known as involuntary loss of income insurance, it pays a specified number of monthly loan payments if you lose your job due to no fault of your own, such as a layoff, during the term of coverage.
- **Credit Property Insurance**: Protects personal property used to secure the loan if destroyed by events like theft, accident or natural disasters during the term of coverage. Unlike the first three credit insurance products, credit property insurance is not directly related to an event affecting your ability to repay your debt.

B. Permissible Changes - Should the creditor change the insurance company, the insurance company must issue new certificates with the name and address of the new company.

- If the new premiums are higher, the creditor ***cannot pass*** the higher rates to the debtor.
- If the new premiums are lower, the creditor ***must refund*** any unearned premiums promptly to the debtor.

C. Benefits -The ***beneficiary*** is a person or creditor designated in the policy to receive the benefits.

The payment of any benefit is conditional upon receipt of due proof that the loss for which a claim is made has occurred. All benefits must be paid to the creditor who must apply them to reduce or extinguish the unpaid debt. Any excess will be paid to the creditor, the second beneficiary, if living, or to the estate. Debtors must be provided reasonable benefits in return for their premium payments. **60% percent of the premium must go to benefits for the debtor and 40% percent of the premium must go for expenses and profit of the company.**

D. Amounts of Insurance -The initial amount of credit life insurance under an individual policy may not exceed the total amount repayable under the contract of indebtedness. Where an indebtedness is repayable in substantially equal installments, the amount of insurance can at no time exceed the scheduled or actual amount of unpaid indebtedness, whichever is greater.

- Consumers are not required to buy credit insurance in order to receive approval for their loan or purchase.

E. Limitations of Coverage - The total amount of periodic indemnity payable by credit accident and health insurance in the event of disability must not exceed the aggregate of the periodic scheduled unpaid installments of the indebtedness; and the amount of such periodic indemnity payments cannot exceed the original indebtedness divided by the number of periodic installments. Coverage must end within 15 days after the debt ends.

F. Procedures for Termination -If the indebtedness is discharged due to renewal or refinancing prior to the scheduled maturity date, **the insurance in force must be terminated before any new insurance may be issued** in connection with renewed or refinanced indebtedness. In all cases of termination prior to scheduled maturity, a refund will be paid or credited.

G. Authorized Forms -Credit life and credit accident and health insurance can only be issued on one of the following **four (4) forms**:

1. Individual policies of life insurance issued to debtors on the term plan;
2. Individual policies of accident and health insurance issued to debtors on a term plan, or disability benefit provisions in individual policies of credit life insurance;
3. Group policies of life insurance issued to creditors providing insurance upon the lives of debtors on the term plan;
4. Group policies of accident and health insurance issued to creditors on a term plan insuring debtors, or disability benefit provisions in group credit life insurance policies to provide such coverage.

H. Refunds, Credits and Charges to Debtor - Each individual policy or group certificate must provide that in the event of termination of the insurance prior to the scheduled maturity date of the indebtedness, any refund of an amount paid by the debtor for insurance will be paid or credited **promptly** to the person entitled thereto. **The commissioner must approve refund formulas before they are used. The insurer must state the basis for the refund in the policy or certificate delivered to the debtor. No refund of less than \$5 dollars need be made.**

To be approved, a *refund formula* must provide for a **"sum of the digits" (also called the "Rule of 78")** refund for single premium straight line decreasing benefit plans, a *pro-rata refund* for level benefit plans, or an actuarially acceptable refund of the unearned premiums for other benefit plans.

The **pro rata unearned gross premium method** or the **rule of anticipation method** of refund are usually used.

- a. **The pro rata unearned** gross premium refund method must be used for level term credit life insurance and credit accident and health insurance where the debtor is not charged on the single premium basis.
- b. **The rule of anticipation** method must be used unless the coverage is listed under the pro rata method above. The refund must be at least what would have been charged for the remaining coverage for the remaining term of debt. An insurer may file other methods if they generate equivalent results.

I. Rates – The standards for prima facie credit life insurance rates. Prima Facie Rates are premium rates the State of Washington has pre-approved. An insurance company may use these (prima facie) rates without filing additional actuarial support. There are three basis for prima facie rates:

1. **Monthly outstanding balance basis**
2. **Single premium basis and**
3. **Alternative Company Option**

Insurers must provide consumer credit insurance benefits that are reasonable in relation to the premium charged. These rates allow sixty percent of premium for benefits on one debtor and forty percent of premium for expenses and profit.

Adjustment of Prima Facie Rates: Every three years the commissioner will review the loss ratio standards and the prima facie rates to determine the rate of expected claims on a statewide basis and compare the rate of expected claims with the rate of actual claims.

III. The purpose of the regulations relating to Credit Insurance WAC 284-34-100 through 284-34-260 is to protect debtors and the public by establishing a system of rate, policy form and operating standards for the transaction of consumer credit insurance. This regulation interprets and implements the sections of Title 48RCW that apply to Consumer Credit Insurance.

Debtors have the right to know:

- ✓ All credit insurance plans that a consumer is eligible to purchase
- ✓ The cost of each insurance plan
- ✓ The consumer's right to cancel the policy within 30 days
- ✓ The consumer's right to provide alternative coverage, either through an existing policy or a newly-purchased plan

The consumer's rights when the policy ends

- ✓ The insurer must continue coverage for the entire period for which a premium has been paid if the policy provides for single premium payments or premium payment that prepay coverage beyond one month.
- ✓ **The insurer must prove termination notice to the insured debtor at least thirty days before coverage ends.**
- ✓ If the policy provides for monthly premium payments, the insurer does not have to provide termination notice if the debtor obtains equivalent coverage and no lapse of coverage occurs.
- ✓ **For coverage on refinanced debt, all exclusion and policy limitations will apply as of the first date that the debtor first became insured for the original debt.**

The obligations of insurers:

1. If the creditor adds insurance charges or premiums to the debt, the insurer must collect the premium or charges within sixty days after it is added to the debt.
2. If the debtor refinances and pays off the debt before the scheduled maturity date, the insurer must terminate existing insurance before any new insurance may be issued to provide coverage for the refinanced debt.
3. If insurance coverage ends due to prepayment before the scheduled maturity date, the insurer must terminate coverage and refund all unearned insurance or premium charges and cause those amounts to be paid or credited to the debtor.

Exceptions: The insurer does not have to refund insurance charges or premiums for any coverage or benefits paid under which a lump sum insurance (life insurance) or for benefits paid under which credit accident and health insurance.

The commissioner determines if benefits are reasonable in relation to premium

charges by: State regulation directs insurers to provide a reasonable benefit in return for the premium they charge and **establishes a new standard or “prima facie” rate, and sets a minimum loss ratio where insurers would pay out at least 60 cents for each dollar of premium they collect** and 40 cents of premium can go for expenses and profit.

The mandatory benefits that apply to prima facie credit life insurance rates:

1. **Suicide:** an insurer may exclude coverage for **suicide occurring within one year** after the effective date of coverage.
2. Insurers may elect to include **age restrictions** in their certificates or policies, subject to the following conditions:
 - An age restriction may say that **no insurance will become effective on debtors who are age 66 or older.**
 - An age restriction may say that **insurance will end when the debtor becomes age 66.**
 - Insurance coverage must continue until the end of the period for which a premium payment or charge is made.

The mandatory benefits that apply to prima facie credit accident and health

insurance rates: The premium rates apply to contracts providing credit accident and health insurance that contain terms as favorable to insured debtors as listed below:

1. The insurer may only **exclude** benefits for disabilities that result from the following:
 - a. war or any act of war
 - b. elective surgery
 - c. intentionally self-inflicted injury
 - d. flight in any aircraft other than a commercial scheduled aircraft
2. **Any preexisting condition exclusion does not apply to disabilities that begin at least six months after the effective date.**
3. **Definition of Disability:**
 - a. For the first 24 months of disability: Total Disability means the inability of the insured to perform the essential functions of the **debtor’s own occupation.**
 - b. After the 24 months: Disability means the inability of the insured to perform the essential functions of **any occupation** for which the debtor is reasonably suited due to education, training or experience.
4. An insurer may require a statement that the debtor is actively at work before insurance becomes effective. The insurer **may not require** the insured debtor to be employed more than **30 hours per week.** If a debtor is **absent due to a regular day off, holiday or paid vacation,** the commissioner presumes the debtor is actively at work.

The refund formulas that are allowed: Each individual policy or group certificate must provide that in the event of termination of the insurance prior to the scheduled maturity date of the indebtedness, any refund of an amount paid by the debtor for insurance will be paid or credited **promptly** to the person entitled thereto. The formula to be used in computing such refund must be filed with and approved by the commissioner. The following methods have been approved:

1. **Pro rata refund method.** All unearned premiums must be returned to the insured.
2. **Rule of anticipation refund method.** Unless the coverage is listed in the pro rata method above, the refund must be at least what would have been charged for the remaining coverage for the remaining term of debt.

If coverage ends, the insurer **may not charge** insurance premium for the **first 15 days** of a month, but may charge premium for a full month if the debtor is covered for **16 days or more**. No refund of **5 dollars or less need be made**.

Obligations that an insurer has to supervise consumer credit operations: Each insurer must periodically conduct a complete review of creditors, maintain written records of the reviews for at least **three years**, and maintain a **list of all licensed individuals who have sold or been compensated** for the sale of consumer credit insurance.

An insurance company must not:

1. Offer or grant to a creditor any special advantage or service that is not included in either the group insurance contract or in the agency contract.
2. Agree to deposit with a bank or financial institution money or securities of the insurer with the design or intent that the deposit will affect or replace a deposit of money or securities that otherwise would be required of the creditor by the bank or financial institution as a compensating balance or offsetting deposit for a loan or other advancement.
3. Deposit money without interest or at a lesser rate of interest than is currently being paid by the creditor, to other depositors of like amounts for similar durations.

Information that must be disclosed to debtors: If a debtor buys credit insurance in connection with a credit transaction, the creditor must disclose the following information to the debtor in writing:

1. **The debtor does not have to buy consumer credit insurance to obtain credit approval.**
2. ***The debtor has the right to provide alternative coverage, either through an existing policy or a newly-purchased plan.***
3. All credit insurance plans that a consumer is eligible to purchase
4. The insurer may decide to deny coverage. This statement must list factors that may cause the insurer to deny or limit coverage.
5. ***The debtor may cancel coverage at any time during the term of the loan.***

The consumer's (debtor's) rights when the policy ends:

1. The insurer must continue coverage for the entire period for which a premium has been paid if the policy provides for single premium payments or premium payments that prepay coverage beyond one month. The insurer must prove **termination notice to the insured debtor at least 30 days before coverage ends.**
2. If the policy provides for monthly premium payments, the insurer does not have to provide termination notice if the debtor obtains equivalent coverage and no lapse of coverage occurs.
3. **For coverage on refinanced debt, all exclusion and policy limitations will apply as of the first date that the debtor first became insured for the original debt.**