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By: **Senator Exum**

Introduced and read first time: January 25, 2006

Assigned to: Finance

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Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: February 28, 2006

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CHAPTER \_\_\_\_\_

1 AN ACT concerning

2 **Premium Finance Companies - Calculation of Finance Charge - Return of**  
 3 **Unearned Interest After Cancellation of Insurance Contract - ~~Return of~~**  
 4 **Unearned Interest**

5 FOR the purpose of altering the calculation of the finance charge under premium  
 6 finance agreements; requiring a premium finance company, after an insurer  
 7 returns to the premium finance company certain gross unearned premiums, to  
 8 refund to the insured the amount of gross unearned interest, computed ~~pro rata~~  
 9 in accordance with the actuarial method, and excluding certain fees or charges;  
 10 and generally relating to the calculation of finance charges under premium  
 11 finance agreements and the return of unearned interest after the cancellation of  
 12 an insurance contract.

13 BY repealing and reenacting, without amendments,  
 14 Article - Insurance  
 15 Section 23-405(a)  
 16 Annotated Code of Maryland  
 17 (2002 Replacement Volume and 2005 Supplement)

18 BY repealing and reenacting, with amendments,  
 19 Article - Insurance  
 20 Section 23-304 and 23-405(b)  
 21 Annotated Code of Maryland  
 22 (2002 Replacement Volume and 2005 Supplement)

23 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
 24 MARYLAND, That the Laws of Maryland read as follows:

1 **Article - Insurance**2 23-304.3 The finance charge shall be computed:4 (1) on the amount of the entire premium loan advanced, including any  
5 taxes or fees that are financed under § 23-301.1 of this subtitle, after subtracting any  
6 down payment on the premium loan made by the insured;7 (2) from the inception date of the insurance contract or from the due  
8 date of the premium, disregarding any grace period or credit allowed for payment of  
9 the premium, through the date when the final installment under the premium  
10 finance agreement is payable; and11 (3) at a rate not exceeding 1.15% for each 30 days[, charged in advance]  
12 ON THE OUTSTANDING BALANCE.13 23-405.14 (a) (1) Notwithstanding any other provision of this article, when an  
15 insurance contract is canceled, whether by a premium finance company, an insurer, or  
16 an insured, the insurer shall return any gross unearned premiums that are due under  
17 the insurance contract, computed pro rata, and excluding any expense constant,  
18 administrative fee, or any nonrefundable charge filed with and approved by the  
19 Commissioner, to the premium finance company for the account of the insured within  
20 a reasonable time not exceeding 45 days after:21 (i) receipt by the insurer of a notice of cancellation from the  
22 premium finance company or the insured;

23 (ii) the date the insurer cancels the insurance contract; or

24 (iii) completion of any payroll audit necessary to determine the  
25 amount of premium earned while the insurance contract was in force.26 (2) An audit under paragraph (1)(iii) of this subsection shall be  
27 performed within 45 days after the insurer receives the notice of cancellation.28 (b) (1) After the insurer returns to the premium finance company any gross  
29 unearned premiums that are due under the insurance contract, the premium finance  
30 company shall refund to the insured the [amount of unearned premium that exceeds]  
31 FOLLOWING AMOUNTS THAT EXCEED any amount due under the premium finance  
32 agreement:

33 (I) THE AMOUNT OF UNEARNED PREMIUM; AND

34 (II) THE AMOUNT OF GROSS UNEARNED INTEREST, COMPUTED ~~PRO~~  
35 RATA IN ACCORDANCE WITH THE ACTUARIAL METHOD, AND EXCLUDING ANY FEES  
36 OR CHARGES UNDER §§ 23-305, 23-306, 23-307, AND 23-308 OF THIS SUBTITLE.

1                   (2)       A premium finance company need not make a refund to the insured if  
2 the amount of the refund would be less than \$5.

3       SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
4 October 1, 2006.