



Creditors Must Consider Impact of COVID-19 on Administration of Voluntary Protection Products

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In response to the COVID-19 pandemic, creditors across the country continue to strive to balance business continuity challenges and servicing immediate consumer financial needs with public safety. Many creditors have begun offering forbearance agreements, payment deferrals, modifications, or extensions. As of April 20, 2020, at least five jurisdictions, including Alaska, Illinois, Maryland, Massachusetts, and Washington, D.C., have banned creditors from repossessing vehicles during the various states of emergency or disaster. Several other states, including Arizona, Nevada, Pennsylvania, and Texas, have adopted guidance recommending against repossession and other collection activity.

As creditors wrestle with how to comply with the various orders and guidance, so must the providers of credit insurance and other voluntary protection products, including debt protection, GAP, service contracts, vehicle protection products, and motor clubs, sold and financed in connection with consumer credit transactions.

The new payment accommodations and state law servicing restrictions have direct implications on the administration of voluntary protection products sold and financed in connection with affected credit transactions. Creditors and product administrators may be asked to determine if consumers are eligible for product benefits after the consumers' credit has been modified or extended or if product benefits continue during a period of forbearance. Should consumers be eligible for product benefits if they are in default on their credit transactions? Under what circumstances may the creditor and/or the consumer cancel product benefits?

In some instances, the product agreement may provide the answer to these questions. In other instances, the product agreement will be silent.

Where the product agreement is silent, creditors and product providers may need to look to state law. In the absence of specific legal guidance, creditors and product providers should consider the UDAP risk that could arise for consumers who are declared ineligible for product benefits at a time when they are most in need.

As with all the various issues creditors and product providers are currently attempting to navigate, customer service and reputational risk should weigh heavily. When this public health crisis is over, creditors and product providers will be remembered for how they responded during this difficult time.