

# HOUSE BILL REPORT

## SSB 5714

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As Reported By House Committee On:  
Financial Institutions & Insurance

**Title:** An act relating to vendor single-interest insurance coverage.

**Brief Description:** Regulating vendor single-interest insurance.

**Sponsors:** Senate Committee on Labor & Commerce (originally sponsored by Senators Fraser, Moore and Barr).

**Brief History:**

Reported by House Committee on:  
Financial Institutions & Insurance, February 24, 1994,  
DPA.

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### HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass as amended. Signed by 14 members: Representatives Zellinsky, Chair; Scott, Vice Chair; Mielke, Ranking Minority Member; Dyer, Assistant Ranking Minority Member; Anderson; Dellwo; Grant; R. Johnson; Kessler; Kremen; Lemmon; Schmidt; Tate and L. Thomas.

**Staff:** Charlie Gavigan (786-7340).

**Background:** An individual who borrows money to buy a vehicle or boat and who uses the vehicle or boat as collateral for the loan is generally required by the lender to carry insurance on the vehicle or boat to protect the lender's interest. Loan contracts often contain clauses which allow the lender to purchase insurance on the vehicle or boat at the borrower's expense if the borrower fails to carry adequate insurance. This type of insurance coverage is called vendor single-interest coverage (VSI).

VSI coverage protects the interest of a lender in a vehicle or boat serving as collateral. It does not protect the interest of the borrower or of any party other than the lender. VSI coverage is purchased by a lender after the borrower fails to obtain or maintain insurance coverage required by the loan agreement. VSI coverage does not cover insurance purchased by the lender for which the borrower is not charged. Collateral protection coverage is similar to

VSI, except that collateral protection coverage also provides benefits to the borrower.

**Summary of Amended Bill:** A lender may charge a borrower for vendor single-interest coverage (VSI) or collateral protection coverage only if the original loan agreement, or a separate document accompanying the original loan agreement and signed by the borrower, discloses the borrower's rights and responsibilities regarding VSI or collateral protection coverage.

Before a lender charges the borrower for VSI or collateral protection coverage, the lender must send two notices to the borrower. The first, sent by first class mail at least 14 days before the second notice, informs the borrower that the lender may obtain VSI or collateral protection coverage at the borrower's expense. The second notice, sent by certified mail at least three days before the lender obtains VSI or collateral protection coverage, discloses the approximate cost of VSI coverage.

If the borrower provides evidence that proper insurance has been obtained, the lender must cease charging the borrower for VSI or collateral protection coverage. If the underlying loan is satisfied, the lender may not continue VSI or collateral protection coverage. If VSI or collateral protection coverage is canceled or discontinued, the borrower will be refunded a pro rata share of the premium.

**Amended Bill Compared to Substitute Bill:** The striking amendment: (1) adds collateral protection coverage to the bill; (2) modifies and clarifies the notices that must be provided by lenders; (3) clarifies the effective date of coverage and the balance covered; (4) removes the study by the Insurance Commissioner; (5) requires notification of third parties where applicable; and (6) prohibits using this act as an argument that previous practices were improper.

**Fiscal Note:** Available.

**Effective Date of Amended Bill:** Sections 1 through 5 take effect January 1, 1995. Section 7 takes effect ninety days after adjournment of session in which bill is passed.

**Testimony For:** This bill is necessary to better inform borrowers financing the purchase of automobiles and boats about their rights and responsibilities regarding insuring these vehicles. It requires lenders to provide notices to the borrower when the borrower fails to provide insurance coverage to protect the lender's interest; these notices will make it clear what the costs to the borrower will be if the lender must purchase insurance because the borrower has

failed to provide the necessary coverage. In the past, borrowers have not always been properly informed of their obligation or the increased cost to them if the lender must obtain coverage.

**Testimony Against:** None.

**Witnesses:** Senator Fraser (supports); Dave Williams, Recreational Boating Association of Washington (supports); Jack Swanburg, Northwest Marine Trade Association (supports); and Trevor Sandison, Washington Bankers Association (supports with amendment).