

SENATE BILL REPORT

SSB 5714

AS PASSED SENATE, FEBRUARY 15, 1994

Brief Description: Regulating vendor single-interest insurance.

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

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: That Substitute Senate Bill No. 5714 be substituted therefor, and the substitute bill do pass.

Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Amondson, Deccio, Fraser, McAuliffe, Newhouse, Pelz, Prince, Sellar, Sutherland, Vognild and Wojahn.

Staff: Catherine Mele (786-7470)

Hearing Dates: February 24, 1993; February 26, 1993; January 17, 1994; January 31, 1994

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

BACKGROUND:

Individuals who borrow money to buy vehicles or boats and who use those vehicles or boats as collateral for the loans are generally required by their lenders to carry insurance on the vehicle or boat to protect the lenders' 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 secured party in a vehicle or boat serving as collateral. It does not protect the interest of the borrower or of any party other than the secured party who may make a claim against the borrower. VSI coverage is purchased by a secured party after the borrower fails to obtain or maintain insurance coverage required by the loan agreement. VSI coverage does not cover insurance purchased by the secured party for which the borrower is not charged.

SUMMARY:

A secured party may charge a borrower for VSI 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 coverage.

Before a secured party charges the borrower for VSI coverage, that party must send two letters of notice to the borrower. The first letter, sent by first class mail, informs the borrower generally regarding VSI coverage. The second letter, sent by certified mail, discloses the same rights and responsibilities as the original loan agreement and also discloses the approximate cost of VSI coverage.

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

Appropriation: none

Revenue: none

Fiscal Note: none requested

Effective Date: January 1, 1994

TESTIMONY FOR:

VSI coverage is very expensive. The charge for the insurance is oftentimes greater than the value of the collateral. These disclosures will provide the borrower with more notice that they will have to pay these high rates. Financial institutions agree that customers should be notified; however, to place the notice requirements on the contract itself is very costly. A separate document accompanying the contract provides the necessary disclosures.

TESTIMONY AGAINST: None

TESTIFIED: PRO: Larry Palmer, Farmers Insurance; Trevor Sandison, WA Banker's Assn.; Gary Gardner, Credit Unions; David Adams, WA Credit Union League

HOUSE AMENDMENT(S):

The act applies to collateral protection insurance coverage as well as vendor single interest insurance coverage. The first notice must be sent within 30 days of the final notice and warning. The final notice and warning must be sent within eight days of charging the borrower for insurance coverage.

The final notice and warning will explain to the borrower whether the secured party is charging the borrower for vendor single interest insurance or for collateral protection coverage. If a secured party substantially complies with the act, the secured party has a complete defense against claims challenging the placement of the insurance.

Premiums for vendor single interest coverage or collateral protection coverage are calculated on a basis that does not

exceed the outstanding credit balance as of the effective date of the coverage.

If the seller of the auto or boat must repurchase the collateral when the buyer defaults, the secured party must provide the seller with a copy of the first notice. The secured party has the option of applying any refund for the insurance coverage against the borrower's outstanding balance.

The study to be conducted by the Office of the Insurance Commissioner is removed. A secured party will not be liable for placing the insurance, if prior to the effective date of the act, the secured party placed the insurance in accordance with the terms of an otherwise legal contract entered into prior to January 1, 1995.