SENATE BILL REPORT

SB 5714

AS REPORTED BY COMMITTEE ON LABOR & COMMERCE, JANUARY 31, 1994

Brief Description: Regulating vendor single interest insurance.

SPONSORS: 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

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:

VSI coverage may be purchased by a secured party only if the original loan agreement disclosed the borrower's rights and responsibilities regarding VSI coverage.

Before a secured party can purchase VSI coverage, that party must send notice via certified mail to the borrower's last known address. The notice must disclose the same rights and responsibilities as the loan agreement and must also disclose the approximate cost of VSI coverage. The notice must be sent at least ten business days before the secured party may purchase VSI coverage.

If the borrower provides evidence that proper insurance has been obtained, the secured party must cancel 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 or credited a pro rata share of the VSI coverage premium.

EFFECT OF PROPOSED SUBSTITUTE:

A separate sheet accompanying the contract or loan agreement and signed by the borrower may provide the necessary disclosures. The certified letter sent by the secured party to the borrower must be sent within three days of charging the borrower for VSI coverage. Within 14 business days before the secured party sends the certified letter, the secured party must send a first class letter telling the borrower about VSI. The Insurance Commissioner shall perform a study of VSI.

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