HOUSE BILL REPORT
HB 2545

As Reported by House Committee On:
Financial Institutions & Insurance

Title: An act relating to regulating single premium credit insurance.

Brief Description: Regulating single premium credit insurance.

Sponsors: Representatives Cooper, McIntire, Simpson, Santos, Chase and Anderson; by request of Governor Locke, Insurance Commissioner and Attorney General.

Brief History:
Committee Activity:
Financial Institutions & Insurance: 2/1/02, 2/8/02 [DPS].

Brief Summary of Substitute Bill

- Prohibits the sale of single premium credit insurance in connection with mortgage loan transactions over $10,000.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Cooper, Chair; McIntire, Vice Chair; Benson, Ranking Minority Member; Hatfield, Miloscia, Santos and Simpson.

Minority Report: Do not pass. Signed by 4 members: Representatives Barlean, Cairnes, Mielke and Roach.

Staff: Thamas Osborn (786-7129).

Background:

Single premium credit insurance is often sold by insurers in connection with mortgage loans or consumer loans secured by real property. A consumer purchases this product to insure against defaulting on the loan in the event of death, disability, or unemployment. The term of the insurance is typically between five and seven years. Rather than being paid in installments, the premium is usually rolled into the loan itself and thus payments on the premium, including interest, are made over the life of the loan. As the result of the interest component, the inclusion of the entire credit insurance premium in the loan amount can significantly increase the total of payments made by the insured.

Summary of Substitute Bill:

An insurer is prohibited from selling credit insurance in connection with a residential mortgage loan transaction if the policy requires that the entire premium be paid at the inception of the loan. Credit insurance may be offered as part of such transactions provided the terms of the policy allow for the payment of monthly premiums. These provisions do not apply to loans that are $10,000 or less and the term does not exceed five years.

Substitute Bill Compared to Original Bill:

Adds a provision exempting mortgages that are $10,000 or less and the term does not exceed five years.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: (In support) Selling credit life insurance on mortgages should not be the predatory practice that it is. Single premium credit life insurance on mortgages should be banned and credit insurance should be paid on a monthly basis, not up-front as part of the loan. The product serves an important purpose, it simply needs to be more fairly offered. If someone is otherwise uninsurable, credit life insurance can provide important security and peace of mind to the insured. The problem with single premium life insurance is that by adding the cost of the insurance to the loan principle up front, the borrower not only pays too much for the insurance, but also pays significantly more in interest, points, and loan fees. It drains consumers home equity. This is not a case where the consumer gets to choose between various insurers. The lenders typically get a high commission, and the interest rate being rolled into a long term product of up to 30 years. Single premium credit insurance is often added without the knowledge of the participant, as illustrated by a current Federal Trade Commission law suit. Last year three of the largest companies that marketed single premium credit mortgages voluntarily withdrew from the market due to bad public relations that were generated by marketing the product. Further, North Carolina banned it.

(With concerns) Credit insurance products are appropriate for certain segments of the insurance buying public. Sixty-eight percent of households earning less than $35,000 a year in annual income have no life or disability insurance. The insurance companies want customers who want to buy the product; they do not want to sell it to unsuspecting customers. An alternative to the flat ban, which would meet the needs of customers, would be to offer customers the choice of a single premium payment or a monthly payment for credit insurance. One of the key benefits of a single premium is a low monthly payment. A monthly product will almost never provide a lower payment than a single premium. Another benefit is that single premium insurance gives peace of mind to those customers that may have a tendency to fall behind on monthly payments. For smaller loans, parameters should be set up so that certain size loans could continue to offer single premium insurance. For example, single premium insurance should be allowed on loans up to $15,000 and if the maturity of the loan was not more than 10 years.

Testimony Against: None.

Testified: (In support) Michael Kreidler, Insurance Commissioner; Christine Gregoire, Attorney General; Ahndrea Blue, Governor's Office; Robert Pregulman, WashPIRG; and Gene Forrester, Senior Citizens Lobby.

(With concerns) Mel Sorensen, The Assurant Group; Tom Echols, Household Financial; and Lou Berg, Crown Finance Company.