HOUSE BILL REPORT
ESB 6525

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: Senators Prentice, Deccio, Keiser, Winsley, Franklin and Gardner; by request of Governor Locke, Insurance Commissioner and Attorney General.

Brief History:
Committee Activity:
Financial Institutions & Insurance: 2/20/02, 2/28/02 [DPA].

Brief Summary of Engrossed Bill
(As Amended by House Committee)

- Prohibits the sale of single premium credit insurance in connection with residential mortgage loan transactions unless specific conditions are met regarding payment options, coverage terms, premium refund rights, and written disclosures.
- Exempts from the prohibition certain transactions involving loans not exceeding $10,000.
- Authorizes the insurance commissioner to adopt rules regarding the written disclosures that the seller of the insurance must make to the borrower.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass as amended. Signed by 11 members: Representatives Cooper, Chair; McIntire, Vice Chair; Benson, Ranking Minority Member; Barlean, Cairnes, Hatfield, Mielke, Miloscia, Roach, Santos and Simpson.

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 Amended Bill:

The sale of single premium credit insurance products in connection with residential mortgage loan transactions is prohibited unless the following conditions are met:

- The borrower is given the option of purchasing the credit insurance on a monthly payment plan in which the premium is not financed;
- The term of the insurance coverage is not longer than the term of the loan agreement or finance period, or the premium does not exceed the term of the insurance coverage;
- The borrower may obtain a full refund of the premium if the insurance is cancelled within 60 days of the date of the loan; and
- The seller of the insurance provides written notification to the borrower that the issuance of the loan is not tied to the purchase of the insurance.

The general prohibition on the sale of single premium credit insurance does not apply if:

- The loan amount does not exceed $10,000, exclusive of fees;
- The repayment term of the loan does not exceed five years; and
- The term of the credit insurance does not exceed the repayment term of the loan.

Sellers of single premium credit insurance must provide specified written disclosures to borrowers that are in compliance with rules adopted by the insurance commissioner (commissioner). The required disclosure statement must include:

- The cost of the insurance and all related finance charges;
- A comparison between the cost of the single premium credit insurance and the cost of comparable insurance involving monthly premiums;
- The borrower’s rights related to the purchase and cancellation of the insurance; and
- Notification that the issuance of the loan is not tied to the purchase of the insurance.

Amended Bill Compared to Original Bill:

The amended bill allows the sale of single premium credit insurance in connection with residential mortgage loan transactions, provided several conditions are met regarding payment options, coverage terms, premium refund rights, and written disclosures. The amended bill retains the exception in the original bill with respect to loans not exceeding $10,000.

The original bill flatly prohibits the sale of single premium credit insurance in connection with residential mortgage loan transactions, except where the loan amount does not exceed $10,000, the repayment term of the loan does not exceed five years, and the term of the credit insurance does not exceed the repayment term of the loan.

The amended bill takes effect on July 1, 2002, whereas the original bill takes effect on July 1, 2003.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date of Amended Bill: The bill takes effect on July 1, 2002.

Testimony For: Single premium credit insurance is not usually marketed by insurers, rather, it is marketed by lenders at high interest rates on the sub-prime market. Consumers are often confused by the terms of the insurance and do not understand that the finance terms can have the effect of greatly diminishing the accrual of equity in real estate. The elderly, minorities, and low income persons are most often victimized by the marketing of such insurance, which often constitutes a form of predatory lending. The unsavory nature of this insurance product has caused most insurers to withdraw from the market, and the federal government is moving in the direction of banning it. The Federal Trade Commission is presently involved in litigation with some of the marketers of this insurance. The bill will help to protect vulnerable adults and thus the state should not wait for the federal government to ban it.

Testimony Against: Single premium credit insurance is a product that is useful to many consumers and should not be banned. The problems that have arisen do not lie with the product itself, rather, they are tied to the way in which the product is marketed by lenders. Accordingly, the state should directly address predatory lending practices and not move in the direction of banning a product that provides benefits to many consumers. There are many regulations that could be implemented regarding the marketing of the insurance that would be sufficient to protect consumers, yet still allow the product to remain on the market. Consumers are best served by having a choice of products. It is common for many costs and fees to be rolled into mortgage loans, thus it makes little sense to single-out this insurance. On a cash flow basis, this insurance is a sensible financial choice for many people.

Only two states have banned such insurance, all others allow it. The product has been marketed for many years and there is no insurance product that can replace it. The commissioner has not been approving the credit insurance products that allow for payments of monthly premiums, thus consumers have insufficient options available to them. If a ban is implemented, the product is likely to be replaced by unregulated debt cancellation programs offered by corporations headquartered overseas.

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

(With concerns) Lisa Thatcher, Washington State Financial Services Advisory.

(Opposed) Mel Sorensen, The Assurant Group.