HOUSE BILL REPORT
HB 1150

As Passed House:
February 24, 2003

Title: An act relating to the sale of single premium credit insurance.

Brief Description: Selling single premium credit insurance.

Sponsors: By Representatives Hatfield, Cairnes, Roach, Cooper, Benson, Haigh, Schual-Berke and Simpson; by request of Insurance Commissioner.

Brief History:
Committee Activity:
Financial Institutions & Insurance: 1/28/03, 2/11/03 [DP].
Floor Activity:
Passed House: 2/24/03, 96-0.

Brief Summary of Bill

- Regulates the sale of single premium credit insurance offered in connection with residential mortgage loan transactions.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 11 members: Representatives Schual-Berke, Chair; Simpson, Vice Chair; Benson, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Cairnes, Carrell, Cooper, Hatfield, Hunter, Roach and Santos.

Staff: Thamas Osborn (786-7129).

Background:

Single premium credit insurance is commonly sold by insurance companies through lenders 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 "single premium credit insurance" is derived from the fact that rather than being paid in installments, the entire premium is paid at the inception of the loan. The general practice is to roll the premium into the loan itself, thus allowing payments on the premium, including interest, to be 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. The term of the insurance is typically between five and seven years.

Summary of Bill:

An insurer is prohibited from selling a single premium credit insurance policy in connection with a residential mortgage loan unless:

- the term of the policy and the loan are the same;
- the debtor is given the option of paying for the insurance via monthly premiums; and
- the terms of the insurance policy entitle the insured to a full refund of the premium if the insurance is canceled within 60 days of the inception of the loan.

The provisions of the bill do not apply if the loan amount is $10,000 or less, the term of the loan does not exceed five years, and the term of the single premium credit insurance does not exceed the repayment term of the loan.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: The bill takes effect ninety days after adjournment of session in which bill is passed.

Testimony For: The problem for consumers regarding single premium credit insurance is that the premium itself is financed as part of the loan and is thus subject to interest payments. Also, this type of insurance usually accompanies high interest loans that are most often marketed to low-income persons. The bill is needed to protect consumers and to provide them with an alternative to paying the entire insurance premium at the outset of the loan. The provisions of the bill do not apply to small loans.

Testimony Against: None.

Testified: (In support) Representative Hatfield, prime sponsor; Bill Daley and Lisa Smego, Office of the Insurance Commissioner; and Mel Sorensen, The Assurant Group.