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**SUBSTITUTE SENATE BILL 5714**

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**State of Washington**

**53rd Legislature**

**1994 Regular Session**

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

Read first time 02/03/94.

1 AN ACT Relating to vendor single-interest insurance coverage;  
2 adding new sections to chapter 48.22 RCW; creating a new section; and  
3 providing an effective date.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 NEW SECTION. **Sec. 1.** Unless the context clearly requires  
6 otherwise, the definitions in this section apply throughout sections 1  
7 through 5 of this act.

8 (1) "Borrower" means a person who receives a loan to purchase a  
9 motor vehicle or vessel in which the secured party holds an interest.

10 (2) "Motor vehicle" means a motor vehicle in this state subject to  
11 registration under chapter 46.16 RCW, except motor vehicles governed by  
12 RCW 46.16.020 or registered with the Washington utilities and  
13 transportation commission as common or contract carriers.

14 (3) "Secured party" means a person, corporation, association,  
15 partnership, or venture that possesses a bona fide security interest in  
16 a motor vehicle or vessel.

17 (4) "Vendor single-interest coverage" means insurance coverage  
18 insuring primarily the interest of a secured party in a motor vehicle  
19 or vessel serving as collateral and obtained by the secured party or

1 its agent after the borrower has failed to obtain or maintain insurance  
2 coverage required by the financing agreement for the motor vehicle or  
3 vessel. Vendor single-interest coverage does not include insurance  
4 coverage purchased by a secured party for which the borrower is not  
5 charged.

6 (5) "Vessel" means a vessel as defined in RCW 88.02.010 and  
7 includes personal watercraft as defined in RCW 88.12.010.

8 NEW SECTION. **Sec. 2.** In a contract or loan agreement, or on a  
9 separate document accompanying the contract or loan agreement and  
10 signed by the borrower, that provides financing for a motor vehicle or  
11 vessel that authorizes a secured party to purchase vendor single-  
12 interest coverage, the following or substantially similar warning must  
13 be set forth in ten-point print:

14 WARNING

15 UNLESS YOU PROVIDE US WITH EVIDENCE OF THE INSURANCE COVERAGE  
16 AS REQUIRED BY OUR LOAN AGREEMENT, WE WILL PURCHASE INSURANCE  
17 AT YOUR EXPENSE TO PROTECT OUR INTEREST ONLY. IF THE  
18 COLLATERAL BECOMES DAMAGED, THE COVERAGE WE PURCHASE MAY NOT  
19 PAY ANY CLAIM YOU MAKE OR ANY CLAIM MADE AGAINST YOU. YOU MAY  
20 LATER CANCEL THIS COVERAGE BY PROVIDING EVIDENCE THAT YOU HAVE  
21 OBTAINED PROPER COVERAGE ELSEWHERE.

22 YOU ARE RESPONSIBLE FOR THE COST OF ANY INSURANCE PURCHASED BY  
23 US. THE COST OF THIS INSURANCE MAY BE ADDED TO YOUR LOAN  
24 BALANCE. IF THE COST IS ADDED TO THE LOAN BALANCE, THE  
25 INTEREST RATE ON THE UNDERLYING LOAN WILL APPLY TO THIS ADDED  
26 AMOUNT.

27 THE COVERAGE WE PURCHASE MAY BE CONSIDERABLY MORE EXPENSIVE  
28 THAN INSURANCE YOU CAN OBTAIN ON YOUR OWN.

29 NEW SECTION. **Sec. 3.** (1) A secured party shall not impose charges  
30 on a borrower for vendor single-interest coverage for the motor vehicle  
31 or vessel as provided in subsection (2) of this section until the  
32 following or a substantially similar warning printed in ten-point type  
33 is sent to the borrower:

1 FINAL NOTICE AND WARNING

2 UNLESS YOU PROVIDE US WITH EVIDENCE OF THE INSURANCE COVERAGE  
3 AS REQUIRED BY OUR LOAN AGREEMENT WITHIN SEVENTY-TWO HOURS OF  
4 RECEIPT OF THIS LETTER, WE WILL PURCHASE INSURANCE AT YOUR  
5 EXPENSE TO PROTECT OUR INTEREST ONLY. IF THE COLLATERAL  
6 BECOMES DAMAGED, THE COVERAGE WE PURCHASE MAY NOT PAY ANY CLAIM  
7 YOU MAKE OR ANY CLAIM MADE AGAINST YOU. YOU MAY LATER CANCEL  
8 THIS COVERAGE BY PROVIDING EVIDENCE THAT YOU HAVE OBTAINED  
9 PROPER COVERAGE ELSEWHERE OR HAVE PAID OFF THE LOAN ON THE  
10 COLLATERAL IN ITS ENTIRETY.

11 YOU ARE RESPONSIBLE FOR THE COST OF THE INSURANCE PURCHASED BY  
12 US. THE COST OF THIS INSURANCE MAY BE ADDED TO YOUR LOAN  
13 BALANCE. IF THE COST IS ADDED TO THE LOAN BALANCE, THE  
14 INTEREST RATE ON THE UNDERLYING LOAN WILL APPLY TO THIS ADDED  
15 AMOUNT.

16 THE COVERAGE WE PURCHASE WILL COST YOU A TOTAL OF APPROXIMATELY  
17 \$ \_\_\_\_\_ AND MAY BE CONSIDERABLY MORE EXPENSIVE THAN INSURANCE  
18 YOU CAN OBTAIN ON YOUR OWN.

19 (2) If reasonable efforts to provide the borrower with the notice  
20 required under subsection (1) of this section fail to produce evidence  
21 of the required insurance, the secured party may proceed to impose  
22 charges for vendor single-interest coverage no sooner than three  
23 business days after giving the notice by certified letter. Reasonable  
24 efforts to provide notice under this section must include:

25 (a) The secured party sending a certified letter to the borrower's  
26 last known address as contained in the secured party's records at least  
27 three business days before the insurance is charged to the borrower by  
28 the insurer; and

29 (b) Within fourteen business days before the secured party is  
30 required to send a certified letter, the secured party shall mail a  
31 notice by first class mail to the borrower's last known address as  
32 contained in the secured party's records. The notice must state that  
33 the secured party intends to charge the borrower for vendor single-  
34 interest coverage on the collateral if the borrower fails to provide  
35 evidence of proper insurance to the lender.

1 (c) The secured party is responsible for complying with (a) and (b)  
2 of this subsection. However, a secured party may seek the services of  
3 other entities to fulfill the requirements of (a) and (b) of this  
4 subsection.

5 NEW SECTION. **Sec. 4.** (1) The secured party shall cancel vendor  
6 single-interest coverage charged to the borrower effective the date of  
7 receipt of proper evidence from the borrower that the borrower has  
8 obtained insurance to protect the secured party's interest. Proper  
9 evidence includes an insurance binder that is no older than ninety days  
10 from the date of issuance and that contains physical damage coverage  
11 sufficient to cover the secured party's interest.

12 (2) If the underlying loan or extension of credit for the  
13 underlying loan is satisfied, the secured party may not require the  
14 borrower to maintain a vendor single-interest coverage that has been  
15 purchased.

16 (3) The interest rate for financing the cost of vendor single-  
17 interest coverage may not exceed the interest rate applied to the  
18 underlying loan obligation.

19 NEW SECTION. **Sec. 5.** If a vendor single-interest coverage is  
20 canceled or discontinued under section 4 (1) or (2) of this act, the  
21 pro rata amount of unearned premium must be refunded to the borrower.  
22 No part of the value of this refund shall be charged to the borrower.

23 NEW SECTION. **Sec. 6.** The insurance commissioner shall perform a  
24 study of vendor single-interest insurance coverage for various  
25 categories of collateral including vessels, vehicles, and real estate.  
26 The study must provide an analysis of the following:

27 (1) The number of companies in 1993 and for each of the preceding  
28 four years offering vendor single-interest insurance coverage for  
29 vessels, vehicles, or real estate;

30 (2) For the year 1993 and for each of the preceding four years, for  
31 each category of collateral and for each company:

32 (a) A breakdown of actual premiums collected by insurance companies  
33 for vendor single-interest insurance coverage;

34 (b) A breakdown of claims paid experience for vendor single-  
35 interest insurance coverage;

36 (c) A breakdown of charges, including interest, to borrowers;

- 1 (d) A breakdown of commissions paid for the sale of vendor single-  
2 interest insurance coverage;
- 3 (e) A breakdown of other overhead costs including fixed and  
4 administrative costs apportioned to each category of collateral; and
- 5 (f) A breakdown of actual profits apportioned to each category of  
6 collateral;
- 7 (3) The total number of variations of vendor single-interest  
8 insurance products sold in Washington in 1993 and for each of the  
9 preceding four years for each category of collateral;
- 10 (4) The number of secured parties using vendor single-interest  
11 insurance in 1993 and for each of the preceding four years for each  
12 category of collateral;
- 13 (5) The general terms and conditions of vendor single-interest  
14 insurance contracts for each category of collateral between secured  
15 parties and insurance companies, including but not limited to industry  
16 practices between the secured party and the insurance company,  
17 commissions, and any costs or other payments made by the insurance  
18 company to the lender and the lender to the insurance company;
- 19 (6) For each category of collateral, the methods by which the  
20 secured party charges the borrower for vendor single-interest coverage;  
21 the extent to which the rule of 78 applies to the policy between the  
22 insurance company and the secured party and the policy between the  
23 secured party and the borrower; and the justification for any  
24 retroactive application of the insurance to the collateral;
- 25 (7) For each company offering vendor single-interest insurance and  
26 for each category of collateral, the underwriting criteria for vendor  
27 single-interest insurance coverage;
- 28 (8) A list of the types and costs of alternative insurance that a  
29 lender may purchase as a replacement for vendor single-interest  
30 coverage;
- 31 (9) Any other information that the insurance commissioner deems  
32 relevant for this study regarding vendor single-interest insurance  
33 coverage; and
- 34 (10) Any recommendations to the legislature that the insurance  
35 commissioner feels are in the public interest.

36 NEW SECTION. **Sec. 7.** Sections 1 through 5 of this act are added  
37 to chapter 48.22 RCW.

1        NEW SECTION.   **Sec. 8.**   Sections 1 through 5 of this act take effect  
2   January 1, 1995.

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