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HOUSE BILL NO. 77

Offered January 13, 2010

Prefiled December 30, 2009

A BILL to amend and reenact § 38.2-3735 of the Code of Virginia, relating to credit life insurance disclosures.

Patron—Ware, R.L.

Referred to Committee on Commerce and Labor

Be it enacted by the General Assembly of Virginia:

1. That § 38.2-3735 of the Code of Virginia is amended and reenacted as follows:

§ 38.2-3735. Disclosure and readability.

A. If a creditor makes available to the debtors more than one plan of credit life insurance or more than one plan of credit accident and sickness insurance, all debtors must be informed of all such plans for which they are eligible. In the case of credit life insurance:

1. If a creditor offers a plan of insurance that insures the actual amount of unpaid indebtedness, the creditor shall also offer to the debtor a plan of insurance that insures only the actual amount of indebtedness less any unearned interest or finance charges; and

2. In the event that a plan of insurance that insures the actual amount of unpaid indebtedness is offered, the creditor shall provide to each debtor a disclosure form which shall clearly disclose the difference in premiums charged for a contract wherein the gross indebtedness is insured versus a contract wherein only the net indebtedness is insured. This disclosure shall include the differences between the amount financed, the monthly payment and the total charge for each type of insurance. The form shall be signed and dated by the debtor and the agent, if any, soliciting the application or the creditor's representative, if any, soliciting the enrollment request. A copy of this disclosure shall be given to the debtor, and a copy shall be made a part of the creditor's loan file.

Nothing contained in this subsection shall be construed to prohibit the creditor from combining such disclosure, in order to avoid redundancy, with other forms of disclosure required under state or federal law.

B. When elective credit insurance is offered, the borrower must be given written disclosure that purchase of credit insurance is not required and is not a factor in granting credit. The disclosure shall also include notice that the borrower has the right to use alternative coverage or to buy insurance elsewhere.

C. If the debtor is given a contract which includes a single premium payment to be charged for elective credit insurance, the debtor must be given:

1. A contract which does not include the elective credit insurance premium; or

2. A disclosure form which shall clearly disclose the difference in premiums charged for a contract with credit insurance and one without credit insurance. This disclosure shall include the difference between the amount financed, the monthly payment and the charge for each kind of insurance. The form shall be signed and dated by the debtor and the agent, if any, soliciting the application or the creditor's representative, if any, soliciting the enrollment request. A copy of this disclosure shall be given to the debtor and a copy shall be made a part of the creditor's loan file.

Nothing contained in this subsection shall be construed to prohibit the creditor from combining such disclosure, in order to avoid redundancy, with other forms of disclosure required under state or federal law.

D. If credit life insurance or credit accident and sickness insurance is required as security for any indebtedness, the debtor shall have the option of (i) furnishing the required amount of insurance through existing policies of insurance owned or controlled by him or (ii) procuring and furnishing the required coverage through any insurer authorized to transact insurance in this Commonwealth. The creditor shall inform the debtor of this option in writing and shall obtain the debtor's signature acknowledging that he understands this option. Nothing contained in this subsection shall be construed to prohibit the creditor from combining such disclosure, in order to avoid redundancy, with other forms of disclosure required under state or federal law.

E. No contract of insurance upon a debtor paid by a single premium or sold in conjunction with a closed end loan shall be made or effectuated unless, at the time of the contract, the debtor is provided with a notice prominently disclosing his rights to a refund of premium in the event the insurance is terminated prior to its scheduled maturity date or the insured indebtedness is terminated or paid off early, and of the obligation of the debtor to provide notification to the insurer under subdivision D 8 of

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59 § 38.2-3724. This notice shall be signed and dated by the debtor and the agent, if any, soliciting the
60 application or the creditor's representative, if any, soliciting the enrollment request. A copy of the signed
61 notice shall be given to the debtor and a copy shall be made part of the insurer's file.

62 F. Readability. - The Commission shall not approve any form unless the policy or certificate is
63 written in nontechnical, readily understandable language, using words of common everyday usage.

64 A form shall be deemed acceptable under this section if the insurer certifies that the form achieves a
65 Flesch Readability Score of forty or more, using the Flesch Readability Formula as set forth in Rudolf
66 Flesch, *The Art of Readable Writing* (1949, as revised 1974), and certifies compliance with the
67 guidelines set forth in this section.