

## Senate Bill No. 740

### CHAPTER 257

An act to amend Section 22314 of the Financial Code, relating to loans.

[Approved by Governor August 1, 1995. Filed with Secretary of State August 1, 1995.]

#### LEGISLATIVE COUNSEL'S DIGEST

SB 740, Lewis. Loans: credit insurance.

Existing law provides that a licensee under the California Finance Lenders Law can provide credit insurance on either a loan or an open-end credit agreement and provides that the amount charged to the borrower for credit life insurance shall not exceed specified amounts or the amount established pursuant to regulations of the Insurance Commissioner, whichever is less.

This bill would instead provide that the amount charged shall not exceed the amount established pursuant to regulations of the Insurance Commissioner.

*The people of the State of California do enact as follows:*

SECTION 1. Section 22314 of the Financial Code is amended to read:

22314. (a) Credit insurance shall not be deemed to be a collateral sale, purchase, or agreement within the terms of Section 22201, 22311, or 22312 when the insurance is provided in accordance with the provisions of the Insurance Code and this section. As used in this division:

(1) "Credit insurance" means credit life, disability, and loss-of-income insurance, or any combination of these coverages.

(2) "Credit life insurance" and "credit disability insurance" have the same meanings as defined in Section 779.2 of the Insurance Code.

(3) "Credit loss-of-income insurance" means insurance issued to provide indemnity for payments becoming due on a specific loan or other credit transaction while the debtor is involuntarily unemployed, as defined in the policy.

(b) A licensee may provide credit insurance with the borrower's consent, the form to be approved by the Insurance Commissioner, and a copy, together with evidence of its approval by the Insurance Commissioner, and a copy of the schedule of rates together with evidence of its approval, to be filed with the commissioner as soon as practicable, after the Insurance Commissioner's approval, and in an amount not in excess of the amount of the indebtedness, and, with



respect to credit life or disability insurance, may collect from the borrower an amount not in excess of that permitted by or pursuant to Section 779.36 of the Insurance Code.

(c) If the loan is prepaid in full by cash, a new loan, refinancing, or otherwise (except by that insurance) before the final installment date, the borrower shall receive a rebate of that amount computed in accordance with the formula approved by the Insurance Commissioner pursuant to Section 779.14 of the Insurance Code.

(d) When charges for the loan are precomputed in accordance with Section 22400, any permitted deferment charge may be computed on the combined total of the precomputed charge and the credit insurance charge. Only one deferment charge may be collected in connection with any loan contract, irrespective of the number of borrowers, and only one borrower need be insured. The amount of the deferment charge may be deducted from the principal of the loan.

(e) If life or disability insurance is provided, and if the insured borrower dies or becomes disabled during the term of the loan contract, the insurance shall be sufficient to pay the total amount due on the loan, excluding unearned charges, outstanding on the date of death, or all amounts that become due on the loan during the period of disability, as the case may be, without any exception, reservation, or limitation, subject, however, to the provisions of Section 22315.

(f) Any credit insurance provided shall be in force as soon as the loan is made. A licensee shall not require credit insurance as a condition of making a loan.

(g) If a borrower procures credit insurance by or through a licensee, the statement required by Section 22338 shall disclose the cost of the credit insurance to the borrower, and the licensee shall deliver or cause to be delivered to the borrower a copy of the policy, certificate, or other evidence thereof, within a reasonable time. In the event a licensee provides credit disability or loss-of-income insurance pursuant to this division, the licensee shall also deliver an understandable written statement to the borrower detailing the conditions under which the borrower will be entitled to make a claim under the insurance policy and the procedure to be followed in making the claim. This statement shall be first approved by the Insurance Commissioner.

(h) The amount charged to the borrower for credit life or disability insurance shall not exceed the amount established by or pursuant to Section 779.36 of the Insurance Code.

(i) Nothing in this article shall prevent a licensee from selling insurance as other business if authorized by Section 22154.

This section does not apply to any loan of a bona fide principal amount of ten thousand dollars (\$10,000) or more, or to a duly



licensed finance lender in connection with any such loan or loans as determined in accordance with Section 22251.

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