

367.706 Definition of administrator -- Duties of retail seller of vehicles relating to debt waivers -- Debt waiver requirements. (Effective January 1, 2027)

- (1) As used in this section, "administrator" means a person, other than an insurer or creditor, that performs administrative or operational functions relating to debt waivers.
- (2)
 - (a)
 1. Except as provided in subparagraphs 2. and 3. of this paragraph, a retail seller of vehicles shall insure its debt waivers under a contractual liability policy or other insurance policy that:
 - a. Is issued by an insurer;
 - b. States an obligation by the insurer to reimburse or pay to a creditor under the debt waiver any sums the creditor is legally obligated to waive under a debt waiver;
 - c. Remains in effect unless canceled or terminated in compliance with applicable insurance laws of this state; and
 - d. Provides that the cancellation or termination of the policy shall not reduce the insurer's responsibility for any debt waivers that are:
 - i. Issued by a creditor prior to the date of cancellation or termination; and
 - ii. Insured under a policy for which a premium has been received by the insurer.
 2. To the extent permitted under KRS Chapter 304, a cancellation or termination of a contractual liability policy or any other insurance policy required under subparagraph 1. of this paragraph may reduce the insurer's responsibility for any debt waiver if the policy is canceled or terminated due to fraud.
 3. A retail seller of vehicles shall not be required to comply with subparagraph 1. of this paragraph for leased vehicles.
 - (b) A creditor that is not otherwise required to insure its debt waivers under paragraph (a) of this subsection may insure its debt waivers under a contractual liability or other insurance policy that:
 1. Is issued by an insurer; and
 2. Complies with this subsection.
 - (c) An insurance policy referenced under paragraph (a) or (b) of this subsection may be:
 1. Obtained directly by the retail seller or other creditor; or
 2. Procured by an administrator.
- (3)
 - (a) A debt waiver shall remain a part of a finance agreement upon the assignment, sale, or transfer of the finance agreement by the creditor.
 - (b) For a debt waiver that is insured under a contractual liability policy or other insurance policy, a creditor shall:
 1. Report the sale of any finance agreement that includes the debt waiver to the insurer; and

2. If applicable, forward any funds due to the assignee, buyer, or transferee of the finance agreement.
- (c) Funds that are received by a creditor or administrator and that belong to an assignee, buyer, or transferee of a finance agreement shall be held by the creditor or administrator in a fiduciary capacity.
- (4) A debt waiver, other than a debt waiver offered in connection with a commercial transaction, shall disclose the following, in writing and in clear and understandable language that is easy to read:
 - (a) That the following shall not be conditioned on the borrower's purchase of a debt waiver:
 1. The extension of credit;
 2. The terms of the loan; or
 3. The terms of any related vehicle sale or lease;
 - (b) The name and address of:
 1. The initial creditor and the borrower of the finance agreement; and
 2. The administrator, if applicable;
 - (c) The terms and conditions of the debt waiver, including:
 1. The purchase price of the debt waiver, if any;
 2. The requirements for protection, conditions, and exclusions; and
 3. The procedure the borrower must follow, if any, to obtain benefits under the debt waiver, including, if applicable, a telephone number or website and address where the borrower may apply for the benefits;
 - (d) That the borrower:
 1. May cancel the debt waiver within a free look period of not less than thirty (30) days, as specified in the debt waiver; and
 2. Will be entitled to a full refund of the purchase price paid by the borrower, if any, if:
 - a. The borrower cancels the debt waiver during the free look period; and
 - b. A benefit has not been provided;
 - (e) Whether the debt waiver is cancellable after the free look period and the conditions under which it may be canceled, if applicable, including the procedures for requesting any refund of amounts paid;
 - (f) If the debt waiver is cancellable after the free look period, the borrower may be entitled to a refund of the unearned portion of the purchase price of the debt waiver, if any, less an administrative fee of not more than seventy-five dollars (\$75), if a benefit has not been, and will not be, provided;
 - (g) If the borrower seeks a refund under paragraph (f) of this subsection, the borrower shall, in accordance with the terms and conditions of the debt waiver, provide a written request to cancel to the creditor or administrator, except if the borrower seeks a refund due to the early termination of the finance agreement, the borrower shall provide the written request to cancel

within ninety (90) days of the occurrence of the event terminating the finance agreement;

- (h) The methodology for calculating any refund under paragraph (f) of this subsection, if any; and
- (i) If the cancellation of a debt waiver is due to a default under the finance agreement, the repossession of the vehicle associated with the finance agreement, or any other early termination of the finance agreement, any refund due may be paid directly to the creditor or administrator and applied as a reduction of the amount owed under the finance agreement, unless the borrower can show that the finance agreement has been paid in full.

Effective: January 1, 2027

History: Created 2026 Ky. Acts ch. 16, sec. 5, effective January 1, 2027.

Legislative Research Commission Note (1/1/2027). 2026 Ky. Acts ch. 16, sec. 24, provides that this statute shall apply to vehicle financial protection products that become effective on or after January 1, 2027.