From: Indiana Credit Union League, John McKenzie

Subject: Regulation Z - Truth in Lending

Comments:

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Docket No. R-1390

Dear Ms. Johnson:

This letter represents the views of the Indiana Credit Union League (ICUL) regarding the Federal Reserve Board's (FRB) amendments to Regulation Z dealing with various disclosures related to mortgages, home equity loans, and various voluntary consumer protection insurance products. The ICUL represents 90% of Indiana's 190 credit unions with those credit unions' memberships totaling more than two million members. We appreciate the opportunity to comment on the proposed rule.

The ICUL and the credit unions we represent have always supported consumers receiving fair and accurate disclosures, and provide the required disclosures daily to members. However, we are very concerned and opposed to proposed disclosures (model forms G-16 and H-16) in the FRB's proposed rule dealing with credit insurance and debt protection products. Currently, the states have determined what the appropriate disclosures are for these types of products, and we do not believe that the Truth in Lending Act (TILA) is the appropriate place for additional disclosures that attempt to usurp the authority of the states to regulate disclosures for these types of products.

With the imminent transfer of the rule making authority related to various consumer protection statutes, including TILA, from the FRB to the Consumer Financial Protection Bureau effective July 21, 2011, as required by the Dodd-Frank Wall Street Reform Act, we also question whether it is appropriate or necessary that the FRB continues to make TILA rule changes. We would encourage the FRB to suspend all rulemaking with regard to the consumer disclosures under Regulation Z in order to coordinate these efforts with the Department of the Treasury and the CFPB as it moves forward with the process of combining the TILA and RESPA disclosures. This includes the proposal issued last year that would completely revise the TILA disclosures for both closed-end mortgage loans and for home equity lines of credit, as well as the current proposal.

Should the FRB decide to proceed with the new disclosure requirements in the proposed rule dealing with credit insurance and debt protection products, we have specific concerns related to these disclosures. We do not believe that these proposed disclosures provide fair, accurate and balanced information about these products.

We have four key areas of concern about the proposed disclosure changes.

Disclosure changes are inaccurate and misleading to consumers.

The specific disclosure language that causes us the most concern is:

"If you already have enough insurance or savings to pay off this loan if you die, you may not need this product."

This statement is very misleading to a borrower. According to most financial planning experts, the typical American family needs more life insurance, not less. By focusing on the borrower's ability to pay off only this loan with savings or other insurance, the disclosure does a disservice to consumers by not encouraging them to assess their total debt when making a credit insurance decision. For example, a borrower may have $150,000 in term life insurance; however when adding up their $150,000 first mortgage balance plus a $30,000 home equity loan and a $25,000 auto loan, without credit insurance, the borrower's family would be left with $55,000 in outstanding debt.

"Other types of insurance can give you similar benefits and are often less expensive."

This statement is inaccurate and gives the impression that term life insurance products and credit insurance products are similar products with equal ease of access for consumers. They are not. Credit life insurance can be easily obtained by completing a brief application with only one health question at loan closing. For a low monthly cost, the borrower obtains just enough life insurance to cover the loan balance. Typically, the only eligibility requirement is that the consumer must be under a certain age (66 or 70, defined by each state).

To purchase term life insurance, most companies require minimum coverage amounts anywhere from $50,000 to $100,000. The application process can be lengthy with detailed questions about the borrower's health, family health history, smoking habits, family finances, occupation and recreational interests. It is well-established that the life insurance application process alone is a barrier to many consumers acquiring adequate coverage.

It is difficult, if not impossible, to make an apples-to-apples cost comparison between these two insurance product types. More importantly, term life insurance is simply not considered by many consumers, but those same consumers will often choose to purchase payment protection products, and they often receive valuable benefits by doing so.

"You may not receive any benefits even if you buy this product."

This statement is misleading to consumers and makes it sound like buying credit insurance is a waste of money. The number one reason for purchasing any type of insurance policy is peace of mind. But benefits are paid through these products to many consumers at their time of need. The products deliver on their intended purpose to consumers.

We believe this disclosure attempts to alert consumers that there are eligibility requirements, conditions and exclusions that could prevent the policyholder from receiving benefits. A more clearly stated alternative, which is language required by the OCC, to this disclosure might be: "There are eligibility requirements, conditions and exclusions that could prevent you from receiving benefits under this product. You should carefully read our additional information and/or the contract for a full explanation."

Consumer testing of disclosures was based on an insufficient sample.

Testing disclosures on a total of only 18 consumers is not a sufficient sample size to validate such important changes.

Consumer comparison-shopping for credit will be impossible if voluntary fees and premiums are required in APR calculations.

This proposal will make it even more difficult for consumers to understand and will make comparing competing lenders' APRs impossible. APR calculations should be standardized. TILA focuses on consumers being able to understand the contractual terms and conditions of a loan, and a consistent and objective format for consumers to compare loans between multiple financial services providers. It always has been difficult for consumers to understand which costs are included in the effective APR calculation. Credit insurance and debt protection products are unrelated to the cost of borrowing since they are optional products and not a required component of the loan transaction, and should not be included in the APR calculation.

The proposed rule revisions to Reg Z will jeopardize many credit union's ability to generate non-interest income and add to their risk of loan losses and charge-offs.

While credit unions are in the business of putting their members first, we realize that credit union members also expect the credit union's staff to work diligently to keep their credit union on the strong financial footing for which credit unions are known. We believe that the proposed credit insurance disclosures will not only hurt a credit union's ability to generate much needed non-interest income, but that will also lead to an increase in loan losses and charge-offs if consumers are made to feel credit insurance is an unwise investment because of misleading and inaccurate disclosure language. Ultimately, this will lead to less available consumer credit.

In conclusion, we believe the proposed disclosure changes will mislead and cause confusion among consumers, ultimately discouraging them from purchasing credit insurance. We believe credit insurance is beneficial to a consumer's financial health and the financial strength of credit unions. We encourage the FRB to withdraw the payment protection disclosure proposal and consider alternative revisions that would give the consumer fair, accurate and balanced information about credit life and debt protection insurance.

Thank you for the opportunity to comment on, and your request for and consideration of our views related to this proposed rule.

Sincerely,
John McKenzie
President
Indiana Credit Union League