



VIRGINIA C. "GINGER" HERRING
PRESIDENT

December 23, 2010

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20511

RE: Docket No. R-1390
NPRM Revisions to Regulation Z

Dear Ms. Johnson and Governors:

Please accept this letter from our company with respect to the proposed changes to Regulation Z. We respectfully ask that the Board of Governors reconsider and not adopt the proposed regulations relating to credit protection (credit insurance) products, and to reconsider one point in the section 226.20 subsequent disclosure requirements rule. Before detailing our specific objections, I believe it important to discuss my company, credit protection products generally, characteristics of consumer credit borrowers in general, and governmental regulation.

I. 1st Franklin Financial Corporation--Background

My grandfather started making consumer loans in rural northeast Georgia in 1941. That is still what we do today, as the need for non-bank credit is great and growing. As of December 1, 2010, our company has 252 branches in six states: 105 in Georgia, 39 in Alabama, 38 in South Carolina, 31 in Mississippi, 24 in Louisiana and 15 in Tennessee. We have 1,045 hard working employees dedicated to meeting the credit needs of our customers. An important part of our customers' credit needs include credit insurance protection.

The great majority of our customers are salaried or hourly employees using wage earnings to repay the loans. Before making a loan, we complete a credit investigation to determine income, existing indebtedness, length and stability of employment, and other relevant information. We have always focused on the customer's ability to repay rather than on the potential value of the underlying security. Our loans are for relatively small amounts (\$1,000 to \$10,000), and for relatively short periods of time (6 to 60 months). Our loans are fully amortized over a fixed term with fixed rates, and are generally secured by personal property such as automobiles, computers, ATVs, trailers, and a litany of other goods. Our customers sometimes need cash quickly for non-recurring unforeseen expenses, debt consolidation, or the purchase of consumer goods or used automobiles. We also make loans in larger amounts and for longer periods of time that are secured by first and second mortgages on real estate. Lastly, we purchase

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sales finance contracts from various retail dealers. On December 1, 2010, direct cash loans comprised 88%, real estate loans comprised 6%, and sales finance contracts comprised 6% of our outstanding loans.

We also offer optional credit insurance coverage to our customers including life, accident and health (disability), involuntary unemployment and property. Customers may request credit life insurance coverage to assure any outstanding loan balance is paid if the customer dies before the loan is repaid, or they may request accident and health insurance coverage to continue loan payments if the customer becomes sick or disabled for an extended period. Involuntary unemployment coverage is offered to make the loan payment in the event of layoff or job loss preventing an income stream. We write these insurance products as agents for a non-affiliated insurance company. As discussed in Section II below, these products are very helpful to our customers. Further, our customers are not the illiterate and uninformed masses incapable of making informed decisions about their insurance needs that the “consumer advocates” seem to believe. Our existing disclosures and the questions our customers ask demonstrate that they understand these products, and that they knowingly and voluntarily choose them. Therefore, unnecessarily disparaging and discouraging the sale of these products will have the two-fold effect of causing harm to consumers by increasing defaults and negative credit reporting, and will harm the creditors whose loans would otherwise have been repaid by insurance proceeds.¹

One of the criticisms we have heard, and which appears to permeate the rationale for revising the credit insurance regulation, is the unfounded belief that a large percentage of credit insurance claims are not paid. We believe this to be in error. We sell insurance through a major credit insurance carrier, Assurant Solutions and its affiliated companies. During the first 10 months of 2010, we filed 6,060 credit insurance claims for our customers, and 5,745 were paid. That’s 95% payment.

As of December 1, 2010, our Company’s resources were invested principally in loans, which comprised about 69% of the Company’s assets. Our net outstanding loan portfolio totaled \$287.3 million. The majority of our revenues are derived from finance charges earned on loans. Our remaining revenues are derived from earnings on investment securities, insurance income and other miscellaneous income. We strive to keep our losses to a minimum and our overhead low. Notwithstanding, our loan delinquency rate for accounts 30 days or more past due was, for example, 9.3% at November 30, 2010. And, due to unemployment, disability, death, or

¹ A fact that cannot be ignored is that without credit insurance products, not only would our customers suffer the financial harm, embarrassment, and fear of losing their possessions when they can least afford to suffer further, but our company and the consumer credit industry would literally become unable to continue lending to a substantial portion of the nation’s consumers who are unable to obtain credit from banks. Our industry estimates that some 40 million people make consumer loans each year. Were credit insurance products outlawed or the number of persons choosing such products substantially reduced due to false and misleading “disclosures”, then we would have to request the legislators in the states in which we operate to increase our rates, or we would have to tighten our credit criteria. Either way will inevitably reduce available credit to and negatively impact a large number of Americans. And, it is not exaggerating to state that consumer finance companies kept lending when the banks would not (and are not). This lending was one of the most critical elements that avoided a complete financial shutdown of our economy.

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bankruptcy, we have to charge off about 7% of our loan portfolio each year. I believe that this is substantially higher than what traditional banks experience.

Finally, the proposed revisions are clearly intended to discourage the purchase of voluntary credit insurance products. However, credit insurance is a necessary, useful, and important element in meeting our customers' needs and ensuring our financial stability. The genuine need for credit insurance is easily demonstrated, but, with due respect, was not adequately studied by the Board in preparation for this proposed wholesale revision of the credit insurance regulation.² I therefore attach to this letter, as Exhibit A, a copy of numerous customer testimonials that demonstrate the usefulness and desirability of credit insurance products to our customers.³ We can and will provide literally dozens, if not hundreds, more such testimonials if it would be helpful to the Board of Governors or its employees. Please review these testimonials in light of our comments below.

II. Consumer Loan Customers

As a general rule, our current 173,618 loans are being repaid by working class Americans whose creditworthiness may not qualify them for "bank" loans. Like so many Americans—including large portions of the "middle class"—our customers just do not have "nest eggs" from which they can withdraw hundreds or thousands of dollars for necessary goods and services.⁴ Many of our customers do not have bank accounts, and most do not have traditional life, accident and health, or unemployment insurance. The proposed rule clearly presupposes that these other forms of insurance are "better" for consumers than credit insurance products. Unfortunately, the proposed rule ignores the reality that many people are unable or unwilling to purchase other forms of insurance such as disability and life due to previous injuries, disabilities, or medical conditions. It also ignores the fact that large numbers of Americans do not have enough money to make the large, unending, monthly payments that traditional insurance policies often require. This is not to say that our customers do not need insurance products. Rather, they are unable or unwilling to procure non-credit insurance products because of (1) preexisting illnesses or limited financial resources, or (2) the inconvenience of trying to find traditional insurance they can afford, or (3) the fact that they cannot commit to making the continuous monthly payments for traditional insurance products. These customers often, but by no means universally, decide to

² The Board's decisions were informed by a study composed of a surprisingly small sample: 10 people in round one and 8 in the next. These "studies" are, therefore, not statistically relevant and do not represent a reasonable sampling of credit insurance borrowers. With due respect for the drafters of this proposed rule, as a corporate officer responsible for abiding by the law and assuring the livelihoods of 1,045 employees, I would never in good faith consider making an important corporate decision based upon so little information. I am troubled, therefore, that the Board is considering changes that affect tens of millions of consumers, based upon so little information.

³ We have generally included our customers' names, with their consent. Some of the other customers in these testimonials did not want their names printed, but have allowed us to release their contact information if requested by the Board.

⁴ While I certainly do not know the statistics, I am comfortable in saying from my life's experience and the statistics that I read in the newspapers, that the great majority of Americans do not have large savings accounts. Yet, they have to buy tires for their vehicles, shop for clothes and back-to-school necessities, and pay for washer and dryer repairs. It is precisely because so many people live paycheck to paycheck that they cannot afford the traditional forms of insurance that this proposed regulation assumes is available to all at less cost.

procure credit insurance to cover their unique risks. They often choose to do so because of the limited nature of our loans and the limited underwriting required to qualify for insurance to pay off their loan in the event of an unanticipated, but covered, occurrence.

Lastly, please understand that we forge relationships with our customers and jointly develop a realistic plan to meet their financial needs and to repay their debts without getting into the “cycle of debt” created or exacerbated by other lending industries. Credit insurance products are often an important part of the structure that can enable the customer to meet his or her needs and to protect against unforeseen losses such as death, sickness, or involuntary unemployment.

III. Federal and State Regulation, and Regulation of Credit Protection Products

I ask the Board to keep in mind how very heavily our industry is regulated—including with respect to credit protection products. At the Federal level, the most significant regulations (not including employment laws) are the Truth-in-Lending Act (TILA), the Real Estate Settlement Procedures Act (RESPA), the Equal Credit Opportunity Act (ECOA), the Fair Credit Reporting Act (FCRA), the Federal Trade Commission Act (FTCA), the Service Members Civil Relief Act, and the Bankruptcy Code.

At the State level, we are regulated by even more laws and regulations, generically categorized as: licensing; consumer lending (generally under the auspices of the State banking and/or financial institutions agencies); unfair and deceptive trade practices; the Uniform Commercial Code; motor vehicle licensing, registration, and titling; motor vehicle installment sales lending; motor vehicle emissions; general usury; commerce and trade; retail installment sales; identity theft; mortgage lending (especially the new federally-mandated SAFE Act laws); laws regulating the manner of creating security interests; collections; Uniform Electronic Transfers Act (UETA); credit insurance; and numerous other State-specific laws.

We are taxed at the State and Federal Level as are all businesses. In addition, we pay state and local franchise and/or privilege taxes on the loans we make. We pay for our branches to be audited by the State Examiners. In fact, our branches are all audited regularly by examiners from the State banking or financial institutions departments that license us. These examiners ensure compliance with State and Federal laws. State lending laws generally require our products and lending practices to be disclosed and approved. And, as agents writing insurance for the credit insurance carriers, we are also regulated, licensed, and subject to further examination by the State banking or insurance departments.

With respect to credit protection products (credit insurance), I ask you to keep in mind that all States regulate such products through their banking, financial institutions, or insurance departments. The terms and conditions of Credit Insurance products must be filed with and approved by the State regulators. Indeed, the rates charged for such products must similarly be requested and receive approval by the States. Some States’ statutes even dictate the rates for some forms of credit insurance. In fact, no credit insurance product may be offered until and unless it is approved by the responsible State regulators who have the duty to set rates and ensure that claims handling practices are in accord with State laws. These State agencies have—and

have exercised—the authority to revise rates and to discipline agents and credit insurance carriers for unfair, deceptive, or non-conforming practices. In point of fact, and contrary to what certain consumer advocates trumpet, the State regulators are by law required to inquire about, and do adjust rates in accordance with claims experience. The States have regulated this industry and credit insurance products for decades—even before my grandfather started loaning money in 1941. In short, the consumer loan industry and credit protection products have been heavily regulated for generations.

Finally, though it should be apparent from this discussion, the sheer number of “disclosures” has skyrocketed in recent years. Disclosures are intended to highlight and inform the most important considerations. We wholeheartedly support informing our customers. These changes, together with others contemplated by the new Bureau of Consumer Financial Protection and the existing Federal and State disclosure requirements, already overwhelm the consumer. Stated differently: consumers are already lost in a sea of disclosures that make all disclosures less meaningful or helpful to the consumer.⁵ Do we really need to change the disclosures that already inform and educate?

IV. Specific Comments Regarding Proposed Changes to Reg Z

Please understand that we firmly believe the existing rules do not need revision. The existing disclosures accurately and thoughtfully implement Congress’ intent as expressed in the TILA. Consumers do in fact understand these disclosures. Notwithstanding, I now turn to our objections to the proposed changes to these established and very workable regulations.

A. Proposed Sections 226.4(d), 226.18(n) and 226.38(h) Regarding Credit Protection (Insurance) Products Should Not Be Revised

We object to any change in sections 226.4(d), 226.18(n), the concurrent proposed Model Forms H-17(A), H-17(B), H-17(C) and H-17(D),⁶ and the related provisions of proposed 226.38(h) that rely upon proposed changes to 226.4(d). The easiest way to voice our concerns and objections is to refer to the Model Forms that implement the changes required by proposed sections 226.4(d) and 226.18(n). Therefore, I address my comments to the following statements in Model Forms H-17(A)-(D) and ask that you consider the same as objections to the specific parts of the proposed rules.

⁵ It should be noted that the study made no attempt to provide the proposed disclosures in a real-world scenario complete with all other state and federally required disclosures. This is a further reason that the study is seriously flawed, and should be disregarded.

⁶ All four forms used the same language stated in Form H-17(A), so our objections to H-17(A) should be considered objections to the other model forms as well.

1. **The Credit Insurance Model Forms Are Not Practicable and Cannot Be Implemented.**

As we understand the Board's proposal, we would be required to give one of the Appendix H-17(A)-(D) disclosures to the applicant for each credit insurance product we offer to our customers.⁷ It is virtually impossible to do this. Let me explain.

We offer the following credit insurance products: (1) credit life, (2) joint credit life (if a husband and wife want joint coverage), (3) credit accident and health, (4) involuntary unemployment, (5) property insurance single interest, and (6) property insurance dual interest. The premium for each is based upon either the amount financed or the total of payments, depending on the type of loan written (interest bearing or pre-computed). Therefore, depending on the products selected, if any, the premiums will change. Since there are six possible types of coverage that the customer could choose from, as we understand the rule, then there are up to 720 combinations (permutations) of forms that we would have to give to the applicant. *E.g.*, life + IUI + disability = 1 combination of forms with identifiable premiums. If, however, you drop off IUI, then another combination of forms is life + disability, and the premiums for both will be different than with the first combination. And so on and on and on.

Obviously, this is unreasonable and eviscerates the TILA intent of making cost comparisons possible and counsels most strongly not to adopt the regulations as proposed unless the Board allows creditors to follow practices such as those used by our company (closed-end credit): During the application stage, we talk to the applicant(s) about the applicant's(s') needs.⁸ Based on the discussion, we then disclose the exact premiums for the combination(s) of insurance products they express an interest in purchasing. If the result is "none", then we do not print disclosures. If the result is "credit life + involuntary unemployment", then we print those two premiums and disclosures, which are automatically adjusted for the combination of products chosen and we do not try to disclose all the possible combinations of coverage and premiums.

At the risk of being too repetitive, the existing regulations already fully and adequately cover all these concerns and fully inform the consumer. They do not need to be changed. At most, to satisfy the concerns expressed in the Board's discussion at pages 74 FR 58554-58558, the Board could adopt a simple Model Form that all creditors could use.

2. **"STOP. You do not have to buy (name of product) to get this loan."**

Use of the word "STOP" clearly imparts a warning. This is, therefore, a qualitative word that casts aspersions upon the following named credit insurance product. While the following

⁷ It is unclear how to comply with these new rules and with the existing property insurance rule that does not require use of model forms like H-17(A)-(D). For purposes of this discussion, we would give a form similar to H-17(A) for the property insurance coverages, meaning there would be two additional product types offered.

⁸ We ask questions like "do you have life insurance?" "Do you have a disability plan?" "Do you have unemployment insurance?" "How will you cover these payments in the event you die (or you lose your job)?"

sentence (“you do not have to buy ...”) is proper pursuant to existing regulation 226.4(d)(1) and the express requirements of TILA sections 105(b) and 106(b), use of the word “STOP” is not.

TILA section 102(a) states the purpose of TILA, and, therefore, the purpose and intent of the regulations implementing TILA:

“(a) Informed use of credit

The Congress finds that economic stabilization would be enhanced and the competition among the various financial institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the cost thereof by consumers. *It is the purpose of this subchapter to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit*, and to protect the consumer against inaccurate and unfair credit billing and credit card practices.

15 U.S.C. section 1602(a) (emphasis added). Nothing in this statute suggests that the Board is authorized to make value judgments about existing state-law approved insurance products. To do so is not informing the use of credit, but is discouraging the use of a particular product ancillary to the use of credit. In other words, the Board is substituting its opinion on the worth of a product for its job of informing the consumer about the cost of credit. As TILA section 105(a)⁹ and 106(b)¹⁰ clearly recognize, credit insurance is a legitimate ancillary product that is, by

⁹ “(a) Promulgation, contents, etc., of regulations. The Board shall prescribe regulations to carry out the purposes of this subchapter. Except in the case of a mortgage referred to in [section 1602\(aa\)](#) of this title, these regulations may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of transactions, as in the judgment of the Board are necessary or proper to **effectuate the purposes of this subchapter**, to prevent circumvention or evasion thereof, or to facilitate compliance therewith.

“(b) Model disclosure forms and clauses; publication, criteria, compliance, etc. The Board *shall publish model disclosure forms and clauses for common transactions to facilitate compliance with the disclosure requirements of this subchapter and to aid the borrower or lessee in understanding the transaction by utilizing readily understandable language to simplify the technical nature of the disclosures*. In devising such forms, the Board shall consider the use by creditors or lessors of data processing or similar automated equipment. Nothing in this subchapter may be construed to require a creditor or lessor to use any such model form or clause prescribed by the Board under this section. A creditor or lessor shall be deemed to be in compliance with the disclosure provisions of this subchapter with respect to other than numerical disclosures if the creditor or lessor (1) uses any appropriate model form or clause as published by the Board, or (2) uses any such model form or clause and changes it by (A) deleting any information which is not required by this subchapter, or (B) rearranging the format, if in making such deletion or rearranging the format, the creditor or lessor does not affect the substance, clarity, or meaningful sequence of the disclosure.”

15 U.S.C. section 1604 (emphasis added).

¹⁰ “(b) Life, accident, or health insurance premiums “included in finance charge. Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charges unless (1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and (2) in order to obtain the insurance in connection with the extension of credit, the person to

definition, not included in the cost of credit if specified Congressionally-mandated disclosures are given. To purposefully imply that a product is not worth purchasing is not to ensure that consumers can more readily compare products (section 102(a)) or to publish a model form to aid the consumer in understanding technical aspects of the credit transaction (section 106(b)), but is to scare the consumer into not purchasing a product that may have genuine value to the consumer.

This, the Board is not authorized to do.

This part of the Model Form would not be objectionable were the word “STOP” not required. Simply delete STOP and we would have no objection to this part.

3. “Go to www.frb.gov/creditprotectionproducts to learn more about this product.”

We object to this statement for the reason that the website is not part of the rulemaking and may contain information to which we would object. Referring to a website that contains information that is not subject to the rulemaking standards is not within the contemplation of TILA. In fact, TILA section 105(a) and (b) specifically contemplates that the Board will publish its model disclosure forms and clauses for traditional rulemaking and comment. By requiring creditors to include reference to a non-vetted website that may contain individuals’ personal opinions of the value of credit insurance products is a subversion of Congressional intent. Further, in light of the biased statements in the proposed regulations and Model Forms, we can hardly be faulted for fearing that the website may also be used to further a particular viewpoint of the day.

4. “Do I Need This Product?” and the related statements

As with the STOP language, this is not a disclosure intended to simplify confusing credit terms, but is intended to judge the value of the product and dissuade the consumer from purchasing the product. As discussed above, it is not the intent of TILA or its implementing regulations to pass judgment on legitimate, state-regulated and approved products. It is and should be the Board’s intent to educate the consumer about the terms of credit—not to take sides in a social debate regarding the utility of credit insurance products.

Moreover, the tone of the statements within this grid is unnecessarily negative. There is not a product on earth that a person could not shop around for and perhaps find at lesser cost. Even within the traditional insurance products that these proposed regulations appear to prefer, the cost for insurance ranges all over the board, depending on the insurer chosen or quoted. Why, therefore, imply that credit insurance products are not valuable? They are. They have benefits uniquely suited to offer protection to short-term credit borrowers unable or unwilling to buy other forms of insurance coverage.

whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.” 15 U.S.C. section 1605(b).

The other phrases within this row also are false and misleading.

Phrase one: [“These payments will only temporarily suspend your payments due and will not reduce the balance you owe. Your balance will actually increase during the suspension period as interest continues to accumulate.”] This is to be inserted on Credit Unemployment Insurance. As to the credit unemployment insurance that my company offers, these are **false** statements. When a person purchases credit unemployment insurance (termed IUI for Involuntary Unemployment Insurance), the payments do in fact reduce the balance owed (including principal and interest), just as any normal payment by the borrower would. Requiring my company to use proposed Model Form H-17(D) would therefore be false, misleading, and confusing to our customers, as we would have to orally persuade them that the Federally-mandated language is simply wrong. Thus, contrary to informing consumers, this disclosure will in fact confuse them. The result would, it appears, be intended by the Board: fewer consumers would purchase this valuable insurance. However, this statement is, at best, sometimes false and should be omitted.

Phrase two: “Other types of insurance can give you similar benefits and are often less expensive.” Again, this is a false and misleading statement that is overbroad and presupposes facts not shown in the record or in reality. For example, what traditional insurance carrier will offer a disability policy that pays benefits for short term disabilities of as little as 3, 7, or 14 days and pays benefits retroactive to the first day of the disability? Many of our customers are more greatly affected by short term disabilities that only last for a few weeks or months. Therefore, in point of fact, credit insurance pays when traditional disability policies are still in the “waiting period”. This is a genuine value to a person living paycheck to paycheck.

Moreover, what traditional insurance carrier will offer life insurance in the face amount of \$1,000 or less where the person’s intention is to stop paying for the insurance in 6 to 12 months, and the person is a smoker with numerous health problems? Even were there a traditional insurance carrier found to offer such rates and terms, where is the proof that the traditional insurance product premium would be less than the state-approved credit life insurance rates?

In short, the Board is making broad generalizations that are not founded upon fact, but upon rhetoric penned by “consumer advocates” who apparently do not understand the businesses they seek to regulate. As shown above, TILA is intended to inform about the terms of credit, not to make value judgments about one type of insurance product when compared with others.

5. “How much does it cost?” and the related statements

In general, this statement and the others in this row appear more neutral and less objectionable than others within the Model Forms. While we do not like the terminology because of the difficulty in stating the rates in the simple format required by the Board, if the Board were to modify this section to allow statement of rates as presented in our products, we would not

object as much. For example, on our precomputed loans,¹¹ the premium is expressed as a single number that covers the term of the loan, whether the loan is for 6 months or 60 months. Using the proposed terminology will be misleading or confusing rather than informative.

6. “What is the maximum benefit amount?” and “This product ... [only covers the first (maximum benefit amount) of the outstanding balance on your loan] ...”

First, why is the word “only” required? Use of this word clearly implies value judgment and that a product may not pay the loan in full. Second, in many instances, credit insurance in fact pays the loan in full. In the case of credit life insurance, the proceeds may either (1) pay the loan in full, with a resulting benefit to the named beneficiary, (2) pay the balance owed at time of death, or (3) pay less than the balance owed, depending entirely upon the borrower’s payment history.

We object to the disclosures as not very meaningful and false.

7. “Can I receive benefits?” and “You may not receive any benefits even if you buy this product”

These are alarmist statements clearly intended to convey distrust of the insurance product. These are not intended as neutral disclosures to inform or enlighten regarding a technical or complex product. Three facts show that these statements are either false or misleading. One, the only time no benefits are paid is if the consumer does not suffer a loss during the term of the loan. Well, traditional insurance does not pay unless there is a loss during the term of the insurance policy. Two, no non-credit insurance product will pay, even if purchased, if the insured (borrower) defaults on the agreement to pay premiums (loan payments). Three, depending on State law, such as in Louisiana, even if a person is in default, and does not pay for the loan, the lender may not cancel the insurance coverage and the insurer must pay for any covered occurrences. Further, in the context of full, on-time payment of loan installments, then credit life, disability, and IUI will all pay the full benefits, just as currently disclosed.

It is clear that this disclosure is simply a means to deter purchase of a legitimate insurance product. We object to these disclosures.

What the Board is really trying to do with these disclosures is to emphasize that there may be events that are not insured occurrences. Well, is that not equally true of every traditional insurance product ever offered? No insurance pays if a non-covered thing happens. For example, traditional life insurance does not pay if you kill yourself (at least not for the first year or two), and disability insurance does not pay until and unless you are actually disabled, injured, or sick

¹¹ A precomputed loan is one where the finance charge (not “interest”) is calculated for the term of the loan, is expressed in a single sum, and where the premium for credit insurance written in connection therewith is, by state law, determined as a single lump sum. While the finance charges and insurance premium are “rebated” upon early payment of the loan, it is impossible to state what any monthly, weekly, or other periodic “premium” is associated with the product. Is it informative and helpful to consumers to give them misleading disclosures?

for the requisite “waiting period” (which are typically expressed in months, not days, as is credit insurance).

Again these disclosures are value-laden, not informative and explanatory, and therefore should be withdrawn unless and until they are made neutral and not misleading. It is probably impossible to formulate a simple disclosure that will, in a truthful and non-misleading manner, disclose all the terms and conditions of credit insurance products. The same is abundantly true for non-credit insurance products.

8. “How long does the coverage last?” and “this product provides coverage for the first (period) of your loan [or until you reach age (age), whichever comes first].”

As before, these statements may be false and misleading. In truth, these statements apply more to traditional insurance products than to credit insurance. What if there is no age limit? In the case of the credit life we offer, there is an age limit at time of purchase. If it turns out that the person is too old, then our company suffers the loss. In the context of credit insurance on closed-end loans, it is very unlikely that the borrower will be too old, because (1) the borrower tells us his or her age when making a credit application, and (2) the applicant’s credit report discloses the age. If it turns out that the person lied about his or her age, then traditional life insurance as well as credit life have procedures to deal with the fraud upon the company. Therefore, the proposed regulation would require us to make statements that are not true.

9. Signature Block and “Yes, I want to purchase optional (name of product) at a cost of up to (maximum premium or charge) per (period).”

We do not object to a signature. However, the part of the statement that reads “optional (name of product) at a cost of up to (maximum premium or charge) per (period)” is a problem.

First, under state law, some insurance products are not “optional” and can be required. If required, their cost is included in the APR. How, then, does one require a person to purchase mandatory insurance when the Federally-mandated disclosure tells the consumer it is not required (“optional”)? While our company currently does not require anything other than some form of property insurance that can be purchased elsewhere or through us, the same is not true of all lenders. Therefore, the statement that the insurance is “optional” is misleading and will cause confusion, not clarity.

Second, requiring the cost to be stated again is, as mentioned above, problematic in some cases. Flexibility would need to be allowed. Better yet, since the Itemization of amount financed and the existing insurance disclosures already require the same information, why not keep the current disclosure requirements? Changing them will not lead to increased consumer appreciation of the cost of these products that are already adequately, simply, and clearly disclosed elsewhere in the Federal Disclosure Statement.

10. The proposed regulations improperly change the credit insurance products requirements from that which Congress intended.

The proposed regulations seek to require credit insurance products to be “optional” in order to exclude the premiums from the APR. *See, e.g.*, proposed Section 226.4(d)(1)(i)(A) (“A heading disclosing the optional nature of the product, together with the name of the product”). However, TILA section 106(b) does not say that they must be optional to be excluded from the finance charge; it says instead that their purchase cannot be a factor in the credit decision, that this fact must be disclosed, and that the consumer must indicate, in writing, his or her desire to purchase it:

“Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charges unless (1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and (2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.”

15 U.S.C. section 1605(b). Given this Congressional intent, the proposed regulation 226.4(d) impermissibly broadens the statutory requirements. For this reason, section 226.4(d)(1), which currently accurately implements Congressional intent, should not be changed as proposed.

B. Proposed Section 226.19, Close-End Transactions Secured by Real Property or a Dwelling.

1st Franklin is a mortgage lender. Therefore, other proposed changes affect us and our customers. We do not object to the changes to section 226.19 that require refunding any fees charged if requested within 3 days after the Early TILAs are mailed to the applicant. The Board is considering alternative paragraphs for section 226.19(a)(2)(iii). It is our opinion that Alternative 2 for paragraph (a)(2)(iii) is better.

C. Proposed Section 226.20 Subsequent Disclosure Requirements

Generally speaking, we are not opposed to the changes to this section. However, we are concerned by the language of paragraph 226.20(a)(1)(ii)(B) and (C) regarding deferments of payments for a fee. The proposed language would require new TILA disclosures, and treatment of the transaction as a refinancing under 226.20(a)(1)(i), if the Lender simply agrees to defer a customer’s payment or extension of loan term for a fee. State law sometimes allows deferral fees. This is particularly so in the case of precomputed loans. Treating the deferral as a new transaction would in all likelihood result in fewer Lenders being willing to defer payments due to customer’s hardships. The result could be an increase in delinquencies on real estate secured loans. Speaking for our relatively small company, we would not be willing to risk being sued for

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TILA errors or rescission over a deferral, when we intended to ease the financial burden to our customer. The consumer would be the big loser. The Board recognizes this fact near the bottom of 74 FR page 58596, but glosses over the harm to the consumer. We take issue with the gloss and believe the harm to be significant to a sizeable portion of the mortgage market.

Is this really what the Federal government desires? We think this is directly contrary to the current Congressional intent and the intent of various laws, regulations, and mortgage programs designed to assist delinquent mortgagors “work out” their problems with Lender assistance. It will not be worth the risk of rescission and lawsuits to express a willingness to defer a payment if we have to give new disclosures and treat the deferment as a refinanced transaction—with its accompanying costs to the Lender and consumer.

We believe, therefore, that the proposed rule is too broad in its determination of what constitutes a “refinancing” requiring new TILA disclosures and ask the Board to delete the phrases “or a fee is imposed” and “and no fee is imposed on the consumer” from paragraphs 226.20(a)(1)(ii)(B) and (C), respectfully.

Finally, the Board requests, at 74 FR 58604 (bottom) comments regarding operational and compliance difficulties that may result from defining refinancings for TILA purposes differently than for SAFE Act purposes. Were the rule modified as proposed, in addition to what I have stated above, I can unequivocally state that we would not likely allow any payment deferments on real-estate secured loans. The risk of violating the SAFE Act is too great, and the penalties for error too significant. Remember that SAFE Act penalties include conviction of crime for the employee and the company. We simply cannot in good faith risk our employees’ good names and livelihoods. Nor can we risk corporate conviction that under licensing statutes in all states, may result in lending license revocation. This could literally shut us down for trying to do a good deed.

III. Conclusion

For the reasons stated, we ask the Board (1) not to promulgate the credit insurance disclosures changes of sections 226.4(d), 226.18(n), 226.38, and Appendix Model Forms H-17(A) to (D). We further ask the Board to delete the “fee” references in paragraphs 226.20(a)(1)(ii)(B) and (C).

Sincerely,


Virginia C. Herring
President

VCH:mea

Credit Life Insurance and Credit Accident & Health Insurance

The Value It Brings!

Exhibit A



There is no better way to express the value of Credit Life Insurance or Credit Accident & Health Insurance than from those who have had to use it. The following pages are just a sample of the correspondence we have from our customers and their families regarding the "Peace of Mind" this type of insurance has given them. All names are of actual customers.

The following are customer's testimonies with permission granted to use their names:

Starkville, Mississippi

Mary Cathy Ishee had a stroke in June 2010. Her daughter stated that if not for the Credit A&H Insurance she had on her loan with us they do not know what they would have done. Since her stroke, her daughter has had to move back to Starkville and take up the lease on her mother's apartment. They have had to move Ms. Ishee to her sister's house for 24 hour care. Both daughters have to cover bills for their mother and even though Ms. Ishee had insurance through her employer, it only covered a percentage of her bills. With the A&H insurance on the loan with us it was one thing they did not have to worry about.

Ruston, Louisiana

Alondra Albritton had been with our company since April of 2009. She was always a good customer with a smile on her face when she came in our office. She secured her loan with us with her car title. We were saddened to find out that she passed away on March 21, 2010 due to a massive heart attack. She was only 38 years old at the time of her death. Due to her choosing to put life insurance on her loan, her family did not have any added worry about past due bills during their time of bereavement. Her mom said she was so thankful that this would be taken care of for them. She said that if it wasn't for this insurance she did not know what she would have done as far as making payments to get her daughters car back.

Dahlonega, Georgia

Robby Cowart passed away from brain cancer at 38 on November 5, 2008. He was a career firefighter and left behind a wife, Melody and 2 daughters (one that is developmentally disabled). If life insurance had not paid off his loan (a \$3078.83 balance at the time of death), Melody would have had to pay on this loan somehow.

Lexington, South Carolina

Rhonda Smith was diagnosed with cancer and was put on permanent disability. She has run out of paid leave time at work and has no income. She has Accident and Health Insurance on her loan with us, and it has given her peace of mind knowing that this is being taken care of for her because of the decision she made to purchase it.

Moulton, Alabama

On December 25, 2009, two brothers were killed at the hand of someone that had no regard for life. One of the brothers was our customer and only 30 years old. Their parents woke up Christmas day to find the sheriff and their pastor at the door to notify them that their only two children had been killed. This was devastating not only to them, but to our office as we had known them both. It was several days later that we had to contact the parents in regards to their son's account. We explained that there was Life Insurance on the account and we told her what we would need to process the claim. We helped them through the whole process and after the claim paid the loan in full the parents came in numerous times to thank us and tell us how highly their son spoke of our office and our company.

Hazlehurst, Mississippi

Mr. Terry Reed of Hazlehurst, MS is a long time customer of 1st Franklin Financial Corporation. In January of 2010 he was off work for over a month with an injury. The A&H insurance that he purchased was able to pay on his loan while he was off work. He says that he always purchases the insurances because it gives him peace of mind knowing that his credit is safe when the unexpected happens and he is not personally able to make his payments.

Bay St. Louis, Mississippi

We had a customer who passed away and his wife, Janice Gillum, was concerned about how she would pay for the loan because we had their vehicle for security and she was not going to be able to make the payments. She came to see us and to her surprise found out that her husband had taken the optional life insurance that was offered to him. She was able to keep the vehicle, and the money that was left over after the loan was paid off enabled her to have money to use toward the funeral expenses.

Andalusia, Alabama

A customer in Andalusia, Alabama passed away and earlier in the year his wife had an aneurism. She was in the hospital for a while and then had to go into rehab for several months and then moved in with her daughter. His Credit Life insurance paid off his account which had a balance of \$6905.51, and gave a refund to his estate of \$1548.24. This gave them peace of mind that this loan was paid off and also provided some help with expenses due to her illness.

Bristol, Tennessee

We recently had a life insurance claim and we were working with the daughter of our customer. She was very upset about her mother's death which was the result of a car accident. She was somewhat angry and upset about having so many of her mother's financial issues to deal with. When we told her that her mother had chosen to have life insurance on her loan with us and that the account would be paid in full she was very relieved. She was also glad to hear that she would get some money that she could use to help cover the expense where her mother's car had been towed and would help pay the storage bill. When she came to get the check for the beneficiary she was very nice and said she wished all of her mother's loans had life insurance because this was one less thing she would have to worry about and she would tell others.

Sandersville, Georgia

Charles Cook bought a truck on October 28, 2009 and we handled the financing. He was killed in a car accident on November 29, 2009. He had no life insurance personally and left behind a young wife who he wholly supported since she did not work outside of the home. She had no money for his funeral expenses and due to having no income she had to move back in with her parents. Charles had chosen to have life insurance on his loan and because of this his loan was paid in full Mindy, his wife, received \$2266.80 as his beneficiary. This is why it is so important that we offer life insurance on our loans. This customer's wife was blessed with this money that she did not even know about because of a decision he made a month earlier having no idea that it would actually benefit his family. He died one day before his 28th birthday.

Picayune, Mississippi

A customer in Picayune, Mississippi had a very good job with the Wal-Mart Deli. She started having problems with her knee that prevented her to be able to continue working. The A&H insurance has allowed her to keep her car and avoid a permanent negative mark on her credit, while paying the notes here. She needs the car to get to and from her Doctor's appointments. Her husband had to take on the other bills that she helped with before her disability, so he was unable to help her pay the note here at 1st Franklin Financial Corporation. She is very thankful to have had this optional insurance available, and does not know what she would have done without it.

Greenwood, South Carolina

A customer in Greenwood, South Carolina was injured while working out of state (Texas) in June of 2008. He was on a scaffold working when an 18 wheeler hit the scaffold. It broke his back. He was hospitalized and had to have surgery. He was unable to travel home for many months. His A&H insurance paid the remainder of his loan. He is now on permanent disability and thankful for the credit insurance he had purchased. It protected his credit and gave him peace of mind while he was healing and adjusting to his limitations from the accident. It also allowed him to not worry about our payment along with worrying about new medical expenses and caring for his family.

Toccoa, Georgia

Peggy Porter, a loyal customer to 1st Franklin Financial for numerous years, has never owned an automobile nor had a driver's license and consequently walked everywhere. In 2008, due to a blood circulation condition her toes had to be amputated, and eventually her entire foot. This meant she could no longer walk nor work. Because we had offered Credit A&H and she had accepted, the insurance paid her monthly payments for the remainder of her loan. This took a large burden from her because she did not know how she would be able to pay her payments and did not want to ruin her credit.

Kingsport, Tennessee

Jackie and Amanda Messick were married in October of 2009. On February 26, 2010, Jackie was diagnosed with cancer and had to be out of work. We filed an A&H claim and before we received the first payment, Jackie passed away. We then proceeded with a life claim and the insurance paid off his loan and gave Amanda a little bit of cash. Amanda was very thankful for the insurance that Jackie had purchased on his loan.

Tuscaloosa, Alabama

A long time customer in Tuscaloosa, Alabama is a single mother of one teenage son and daughter 19. We have her only auto as collateral on her loan with us. She had two strokes a few months ago and has she has had a very hard time trying to pay her bills. She had chosen the optional A&H insurance on her loan with us and has since told us numerous times how grateful she is that she had done so. If not, she fears she would have lost her vehicle.

Laurens, South Carolina

On December 3, 2009 we had a customer in Laurens, South Carolina that was killed in a motorcycle accident. He was the sole provider for his family. His wife did not work outside the home and they had 3 children. He had requested life insurance on his loan in which he listed his wife as his beneficiary. We filed the life claim with the insurance company and they paid his loan in full. They also issued a check for \$488.97 to his beneficiary. When his wife came into our office to pick the check up she was in tears. She proceeded to tell me that after I called her to let her know about the check a heavy burden was lifted off her. She said with her not working she had been struggling to get the bills paid and did not know how she would provide Christmas for the children. She said it was devastating with them losing their father, and for them to have to go without Christmas was breaking her heart. She thanked me and said without the insurance she did not know what she would have done.

Bristol, Tennessee

James and Brenda Brown were customers in Bristol, Tennessee. James passed away a few months ago unexpectedly and we had their vehicles on the account. Brenda said the optional life insurance they had on the account benefited her greatly. She stated that without this insurance she does not know how she would have done it. James did not have any outside life insurance so she said that the fact that the loan was paid off with the credit insurance was so much help. She also said the check she received as beneficiary helped so much with other expenses. She greatly appreciates 1st Franklin Financial and what we stand for and she would do business with us again in the future.

Starkville, Mississippi

Walter Atterberry is a customer in Starkville, Mississippi. Back in September 2010 he was walking through his house and tripped and tore the ligaments in his knee. He has not been able to return to work as of today. He can not afford the disability insurance where he works so he never added it to his benefits. He is so thankful for our credit insurance that he chose. Our Credit A&H insurance has been making his loan payments. Walter stated that he would be glad to talk with anyone and we were welcome to give out his phone number to anyone needing to hear how important this insurance has been to him and to many other customers.

Grenada, Mississippi

A customer in Grenada had several loans with us over the years and always refused our optional credit insurance products. He worked for Cable One installing satellites and unfortunately for him he tore his Achilles Heel and was out of work unable to walk for 8 months following surgery. His workman's compensation was not enough to cover his basic needs and with no insurance on our loan he quickly fell behind. We managed to work with him and get him renewed and on his next loan he demanded to have the coverage of our credit insurances and vowed to have them always and forever when he borrowed in the future. He said if we needed a spokesman for the importance of these products he would be glad to oblige.

Centerpoint, Alabama

Dorothy Gray obtained a loan from us on September 23, 2009. She died on March 4, 2010 unexpectedly. We filed a claim and her account was paid in full and her beneficiary received a check for \$417.09. Her husband came to our office and informed us of her death. Upon payment of the claim, we called him to let him know there was an overage to go to him. He came to our office and was in tears and so thankful she had credit life on her loan. The first reason being he was aware of the debt and all of her other debts, but with the loss of her income, he was not sure how he was going to pay all the debts she owed. The credit life cleared this debt. Secondly, due to the unexpected death, the check he received helped him pay some of the expenses of her funeral. He was overjoyed we had the credit life available for her loan.

Batesburg-Leesville, South Carolina

Trans Rosser, a customer in our Batesburg-Leesville office got hurt at work when he fell off his loader and hurt his back. He is out on workman's compensation however he is having a difficult time with that insurance. He did have the A&H insurance on his two accounts with us and this insurance as given him peace of mind as his payments are being made during this time and he does not have to fear losing his vehicle.

Pearl, Mississippi

Mr. Steve Speights has been a long time customer with 1st Franklin Financial. He has had several loans with us without purchasing life and disability insurance. He did a loan with us in 2009 and decided that he was going to get our insurance products so that he would have a little extra coverage just in case something happened because his work had slowed down and if he became ill he would struggle paying his payment. He wanted to protect his credit the best he could. He was then diagnosed with cancer later that year and the disability insurance was a big help to Mr. Speights because he was able to keep his credit with us in good standing.

Forest, Mississippi

Mr. Billy Moore was an excellent customer. He got a loan from us on October 16, 2008. He always paid on time and was one of our best customers. In January 2009, we noticed he started to run past due. In February 2009, he was diagnosed with lung cancer and started undergoing chemo and radiation treatments. Mr. Moore and his wife didn't know how they were going to continue to make their monthly payments. We reminded them of the A&H Disability insurance on his loan and the customer had the claim completed. Once faxed in, the insurance started making his monthly payments. The Moore's couldn't have been more grateful. In great sadness, Mr. Moore soon passed away on September 17, 2009. His wife, Mrs. Moore was devastated and did not know how she was going to make it on her own. With deep sympathy we helped her complete the Life Insurance claim. The Insurance then paid the remaining balance off. Mrs. Moore was so thankful. She visited our office many times with tear-filled eyes to show her gratitude. Feel free to contact Mrs. Moore at 601-946-1015.

Hazelhurst, Mississippi

When a customer from Crystal Springs Mississippi who is a truck driver started having seizures in 2010, he was told that he would not be able to drive for a full year after he stops having seizures. He was very happy to know that the insurance that he had purchased on his loan was going to be able to make the payments on his account while he is off work. After filing his initial claim for the A&H insurance, the insurance company put his payments on auto pay, which meant that he would not have to worry about going to the doctors office every month to have a continuation claim filled out. He stated that he was so glad that we offered the insurance products on our loans, because he did not qualify for long term disability and the company that he drove for did not offer short term disability. He said that it was a very secure feeling to know that his credit with 1st Franklin Financial would be secure at this time of uncertainty.

Carthage, Mississippi

In October of 2010, an established customer of 1st Franklin Financial, Mrs. Deena Beckham passed away unexpectedly. Mr. Jimmy Beckham, her husband, came into the office and told us of the tragedy. Mr. Jimmy knew his wife had purchased the credit life insurance that we offered on her account. He told us, during this difficult time, just knowing that Mrs. Deena's account wouldn't be an added burden to him was a comforting thought.

Carthage, Mississippi

Mrs. Catina Henry has been a customer of 1st Franklin Financial for many years now. In October 2010, she became unable to work due to health problems beyond her control. Mrs. Henry had purchased the A & H insurance on her account. This insurance kept Mrs. Henry from becoming delinquent on her payments. She told us that she was grateful to have had that coverage when she needed it the most.

Jackson, Mississippi

My name is Elaine Knott and this is my testimony. I am so thankful that 1st Franklin Financial offered me the 14 day disability on my loan I had a few years ago. I was off of work for 11 months after my surgery on my shoulder. I was not able to work and the insurance kept my loan payments coming in monthly. The entire loan was paid off and I was able to do another loan once I returned to work. I asked for the insurance on that loan and will continue to get the insurance on all my future loans.

Houston, Mississippi

Sonya Blaxton of Houston, MS believes it is a "Common Sense Decision" to choose the insurance protection offered by 1st Franklin Financial. She said when she was younger and just starting her credit, that she and her husband thought it was beneficial for them to have the insurance protection. They discussed that they were unable to purchase a separate life or disability policy because they were unable to afford them. She said they've always chosen to take the protection since then. She was never more appreciative of the protection until she lost her husband on November 1, 2008. He died at the young age of 49. With all the worries of dealing with a death of a loved one, she was very relieved to have the life protection on all of her loans. She said it was a relief not to have to worry about paying those bills because the life protection took care of them.

She said it was always a "Common Sense Decision" to choose the life and disability protection then and still will on each and every loan she has the to opportunity to do so.

JERRY W. ROBERTS
185 Oak Dr.
Kingston, TN. 37763

To Whom It May Concern

I am writing this letter in regards to information I have inquired, about dropping insurance plans from small finance companies. I am a person with a Latoh Heart condition, if not for the insurance on my loans, with 1st Franklin Financial, I would have to have Filed Bankruptcy. Because I was, and still, unable to work and make my monthly payments. Having this option to buy, this insurance plan is a very good plan, if not for the plan I'm sure there would be many businesses that would be unable to receive their money, and would have to depend on the government to bail them out, especially when customers as myself become disabled.

As a participant of this plan, I hereby give my permission to use my Name, letter, and etc. to who ever to express my opinion and support of small financial services.

Open Your Eyes Government! Keep These Companies IN Business

Mr. Jerry W. Roberts

MR. JERRY W. ROBERTS

To Whom It May Concern:

I consider this to be the most important correspondence I have ever had the honor to write.

To be able to influence the decision that affects a very reputable financial institution. The products that you can make available to your customers are a very serious matter. The Government is geared up to benefit big business and leave the average customer hanging after being sold a bill of goods that, do not deliver on the promise to be a benefit to us. This seems to be the growing normal.

Too many companies are down sizing on the good things that made them grow in the first place. During the hard times we especially need to keep the products that are of benefit available to us.

1st Franklin is a very reputable company in our community. They serve the needs of people that have problems and need to be able to get help. I have been a satisfied customer for several years. In March of 2005 things were falling apart in my home. My husband had to be hospitalized and as a result lost his position of 20 years. That meant I had to bring home the money for the mortgage and all other household expenses. My daughter was still in school and finally my health gave out and I was put out of work. For 3 years I struggled to keep our home out of foreclosure.

The only good thing that has helped us to struggle through these times has been the benefit of the disability insurance that was offered on my loan. I sincerely encourage you to offer these products. They are life savors to your customers. I realize that you struggle with the important process of staying a viable leader in the world of finance. But, if you cannot provide the products that help to protect yourself and your customers you become just another building on the block. STAY STRONG, we need you!!!

Sincerely,
Judy Davis

December 05, 2010

To 1st Franklin
PO Box 68
Jena, LA 71342
318-992-6267

This is a just a little Thank You letter to let you know how much I appreciate you. A year ago the Doctors told me I would never work again and of course I thought I would lose everything I had. So as I took time to call all my bill companies, your company was the only one I had insurance on. As I called the places most of them were rude to me, when I would ask if I had insurance on my loans, they would make rude remarks, instead of just saying no ma'am, you don't have the insurance. My nerves and feelings were very hurt. I wanted to write this letter to Thank You and to let you know if your company had not offered me this insurance I most likely would have gone bankrupt. That is a great program and I am willing for my name to be used and my story to be used as an example. Most importantly, make sure you go over it with every customer and explain the benefits to them. I hope your company continues to offer this program. It is an awesome program. I can't thank you enough. Thank you. Thank you. Thank you.

Lisa Knapp

To whom it may concern,

I would like to tell you how the disability and life insurance offered to us by 1st Franklin Financial benefited us. My husband became disabled from his job, due to illness, we became financially strapped. If we had not taken the disability insurance on our loan, we would have lost our vehicle.

Our son got a loan from 1st Franklin to purchase his car, my husband co-signed with him. In 2007 our son was in a fatal car wreck, it destroyed us to lose our son. He had taken the life insurance out on his loan. We at least got peace of mind from knowing while during our grieving we would not be hounded for the car payment. It was covered in full.

We are not rich, and if it wasn't for 1st Franklin we would have been turned away from getting help to build our credit. They have been there when no one else would even consider helping.

The Blankenships