Credit Union

December 20, 2010

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Proposed Changes to Credit Insurance Disclosures under Regulation Z and the Truth-in-Lending Act
Docket No. R-1390

Dear Sir or Madam:

I am writing to express great concern with the proposed amendments to the credit insurance and debt protection disclosures under Regulation Z. After careful review of the proposed changes, we, at UW Credit Union, believe the proposed changes misrepresent the purpose and value of payment protection products to our credit union members.

UW Credit Union serves more than 154,000 members and currently has assets of over $1.2 billion which places us among the largest credit unions in Wisconsin. We have been offering payment protection products for over 20 years, and many members have found value in the convenience and pricing of these financial products. With a good ratio of premiums to pay out, since 2008, our members have received nearly $500,000 in claim payments, helping them make their monthly payments in the case of disability or loan payoff in the case of death. Payment protection policies protect our members' credit rating which is an important consumer asset. Finally, positive member feedback over the years has validated the value of these products to our members.

While we support the need for meaningful consumer disclosures, we believe that the proposed disclosures actually serve to misrepresent the purpose and value of the payment protection products we offer. The proposed changes go well beyond the presentation of product terms and features and seem to actually make a value judgment through a universal statement which a reasonable person would read as financial advice against these products. Such statements are potentially misleading and potentially damaging to the financial well-being of the consumer.

We have four key areas of concern about the proposed changes as follows:

1. **Disclosure changes are inaccurate and misleading to consumers.**

   These specific disclosures create the most concern:

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

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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 is very 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 (often 66 to 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.

Furthermore, the State of Wisconsin Office of Insurance regulates the pricing of these products to ensure that the premiums charged are reasonable to the benefits derived from purchasing the product. **UW Credit Union's credit life products are priced 35% below the limits mandated by the State of Wisconsin.** It is very unlikely that our members will find a similar product priced more competitively than we are offering.

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

  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, 1st 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.

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

  This statement is misleading to consumers and makes it sound like buying insurance of any type is a waste of money. A primary reason for purchasing any type of insurance policy is peace of mind. Benefits are paid through these products to many of our customers at their time of need. The products deliver on their intended purpose to consumers. A good ratio of claims paid to premiums collected demonstrates that the disclosure is misleading.

  We assume the intent of this disclosure is 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."

2. **Consumer testing of disclosures was based on an insufficient sample.**

   Testing disclosures on a total of only 18 consumers hardly seems like a representative sample large enough to form any valid conclusions, especially considering that these disclosures will be provided to millions of consumers each year.

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

   It has always been difficult for consumers to understand which costs are included in the effective APR calculation. 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.

In conclusion, we respectfully ask the Federal Reserve Board to withdraw the payment protection disclosure proposal and consider alternative revisions that would give the consumer objective, fair and accurate information about credit protection insurance. There is no governmental precedence for consumer value judgments in the disclosures for products and services which are manufactured and sold in full compliance with state and federal laws. We believe the proposed disclosure changes will mislead and cause confusion among our members and will ultimately discourage them from purchasing credit insurance which we offer at favorable terms.

Sincerely,

Paul Kundert
President & CEO