



December 21, 2010

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

Re: **Docket No. R-1390**
Comments on Proposed Rules for Additional Consumer
Disclosures under Regulation Z, Truth-in-Lending

Dear Ms. Johnson:

The Ohio Credit Union League (OCUL) appreciates the opportunity to comment on the Federal Reserve Board's (Fed), Regulation Z, Truth-in-Lending Act, proposal for additional consumer protections and disclosures for mortgage loans. The Ohio Credit Union League is a credit union trade association representing the interests of Ohio's federal and state-chartered credit unions and its 2.7 million members.

This proposal includes imposing new consumer disclosures for loan applicants for the purchase of credit life insurance, credit disability insurance and debt cancellation/debt suspension (including guaranteed asset protection) products. The intent of the new disclosures is to ensure consumers are better informed to make reasoned decisions on the option to purchase these insurance protection products. Based on its findings from the Fed's survey/focus group studies, the Fed has proposed various model consumer disclosure forms for financial institutions that would comply with its proposed rules.

The comments reflected in this letter represent the recommendations of the Ohio Credit Union League and input received from its Government Affairs Committee and member credit unions. We appreciate the opportunity to provide suggestions and feedback to the Federal Reserve prior to adoption of any rules as proposed.

Summary of Comments

Good consumer disclosures provide the potential consumer with the information needed to make an informed decision, and to not bias the consumer's decision in favor of, or opposed to, the purchase of a product. This proposal violates this basic tenet of sound disclosure by being overtly and uniformly biased against credit protection solutions. This is especially troubling for the credit union industry, which has a long, proud history of serving members in a trusted relationship with responsible, well-disclosed, value-added credit protection products.

The OCUL fully supports any needed changes to disclosures, as long as the disclosures are fair and accurate and clear to the consumer. However, the Board's proposed model forms are vague and decidedly negative, misleading consumers to believe that these products are bad and unneeded. The proposed disclosures cast an alarming tone that, if true, would persuade nearly any reasonable person to view the products as a waste of money. This is simply not true. In addition, disclosure of the true costs for the insurance in the model forms would be greatly exaggerated. The model forms, as proposed, would certainly lead to a decrease in consumers' election of voluntary payment protection coverage, more risk for credit unions' loan portfolios, and fewer members and/or their heirs receiving the benefits of protection of their loans when needed most.



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The OCUL and its member credit unions fully support reasonable changes as may be needed from time to time to fully and accurately inform loan applicants on the availability of credit insurance products. Credit unions find these products to be extremely valuable to their members and have been cited many times over the years as being one of the leaders in providing loan protection products that are fairly priced and that provide high benefit-to-premium-paid ratios.

Recommendations for Improved Disclosures

Below are numerous issues and recommendations that OCUL recommends for improvement to the proposed disclosures:

Annual Percentage Rate (APR) Disclosure: Currently, Regulation Z states that creditors can exclude the cost of credit protection products from a loan's annual percentage rate if three requirements are met: 1) the purchase of the product has no bearing on the creditor's decision to approve the loan; 2) the cost of the product is disclosed; and, 3) the borrower consents to the purchase. The Fed is now proposing that for closed-end mortgage loans, the APR should include the cost of the voluntary insurance. This contradicts the language of the Truth-in-Lending Act and would make the cost of the loan appear higher than it really is, and make loan shopping for comparisons more difficult. The OCUL recommends that this new requirement be eliminated.

New Model Consumer Disclosures: The proposal contains various model forms for use by financial institutions, depending on the credit or debt cancellation/suspension product desired by the consumer. The model forms for the purchase of credit life and credit disability are similar. Below are comments relating primarily to statements made in model form H-17(B) "Optional Credit Life Insurance:"

- **"STOP"** This statement basically instructs the reader to stop reading the consumer disclosures. The use of the word **"STOP"** at the beginning of the disclosure reads much more like a warning rather than simply calling attention to the notice. It is alarmist in nature and infers that the product offering is simply bad, inferior, or a rip-off. We strongly recommend that this word be removed.
- **"If you already have enough insurance or savings to pay off this line of credit if you die, you may not need this product."** First, there is an implied assumption that most people have other insurance or savings and that the life or disability protection is probably not needed. This is contrary to the message OCUL has received from its member credit unions. It is clear that many people do not have sufficient assets for such "self protection." In addition, financial plans that professional financial planners create, or financial plans that individuals/families do on their own, rarely consider future debt incurred, according to The National Association of Personal Financial Advisors (NAPFA).

The recommended disclosures by the Fed clearly discourage the purchase of credit life or disability and other insurance products and should be eliminated. It is the consumer who must make the personal choice to insure their security in case of being injured or of death. These "value judgments" fall outside the role of the Federal Reserve.

- **“Other types of insurance can give you similar benefits and are often less expensive.”** This statement is inaccurate. Industry data indicate that when purchasing credit life in smaller amounts (i.e. \$10,000 to \$25,000) to cover loan balances, credit life insurance has a lower rate and a lower aggregate payment in most cases than term life. It is true that the term life may be less expensive per thousand dollars when purchased in much larger amounts, but health underwriting and the larger policy premiums result in premiums too costly for people of modest means. In addition, the proposed rule does not identify any specific products and costs available in the marketplace (including credit unions’ products) as examples of alternative means of obtaining loan protection.

The use of the National Association of Insurance Commissioners (NAIC) model language is more appropriate and states, “If the consumer has other insurance that covers the risk, he or she may not want or need credit insurance.”

- **“This product will cost up to \$X per month.”** Besides the fact that it is followed by “This cost depends on your loan balance,” the first statement infers that the cost per month will be based on the initial/highest loan balance at the commencement of the loan. This is incorrect, as credit unions use a declining balance method. A significantly better disclosure would be to cite the cost basis of \$X per \$100 of outstanding balance, the same type of disclosure the Fed requires under Regulation Z for citing finance charges in open-end lending contracts and in advertisements. For comparative purposes, this is much more informative and accurate, and far less misleading than the proposed approach which favors exaggeration.

Further, OCUL would support the inclusion of language in any recommended model form that clearly informs the consumer that the insurance may be canceled at any time.

- **“You may not receive any benefits even if you buy this product.”** We are completely unsure what the intent of this statement was meant to convey to the public. It does nothing to inform the consumer. On the surface, this statement implies that the consumer would unlikely ever receive benefits. Of course, no one wants to personally receive the benefits of a life or disability insurance product. No one wants to become disabled or die just to receive benefits. This is the essence of insurance. No one wants to see their house and possessions disappear due to a tornado in order to file a homeowner insurance claim. Consumers benefit through peace of mind, even though they don’t benefit monetarily from insurance claims.

We think that possibly the Fed simply wants to inform the consumer that “There are exclusions under the policy.” Every insurance contract in existence today has exclusions. Stating just that is all that is needed.

- **“If you do not meet these requirements, you will not receive any benefits even if you buy this product and pay the monthly premium.”** The Fed’s own consumer survey shows confusion by consumers on this language. All insurance policies have limitations and exclusions, but this implies that the product is somehow more restrictive than other life and disability coverage, when the opposite is true. The provisions of any exclusions are already mandated by state law. In the end, this statement serves no purpose and only further alarms the consumer to not ever consider the potential benefits of coverage.

Other Concerns

OCUL is concerned with the overall cost implications to both borrowers and financial institutions. The rules would raise the cost of administering credit protection programs due to increased length, programming, and complexity of the disclosure forms. OCUL objects to the number of required disclosures, tripling in our estimation. Any new disclosures should be significantly shortened and be permitted to be incorporated into existing disclosures.

There are additional consumer eligibility documentation requirements, with which we do not have any specific problem, beyond it incorporating additional administrative steps and costs into an already lengthy loan process.

Credit unions' delinquencies, defaults and charge-offs would also rise because fewer members would have protection to pay their loans in the event of their death, disability, unemployment, etc.

Most damaging, OCUL believes the proposed rules, if adopted, would do a disservice to members who believe the negative disclosure slant and decline a product that could provide valuable benefits to them at critical times in their lives.

Finally, OCUL is disappointed that the Fed's conclusions on disclosure modification were based on the advisement of an extremely small sampling size. The disclosures were tested on only 18 consumers – 10 in the first round and eight in the second round. This survey is not remotely close to creating a statistical valid sampling size and margin of error that yields reliable results, and should not be used by the Fed to base its broad conclusions and recommendations.

Conclusion

Credit unions have been cited many times over the years as being one of the leaders in providing loan protection products that are fairly priced and that provide high benefit-to-premium-paid ratios. Credit union members have found credit life and disability and other insurance products to be extremely valuable. According to industry data, consumers have received an estimated \$2 billion in benefits from credit insurance products over the past five years alone.

The Ohio Credit Union League highly recommends that the Federal Reserve Board revamp the current proposed disclosures for credit life insurance, credit disability insurance and debt cancellation/debt cancellation suspension products. These disclosures go well beyond ensuring that consumers are informed properly about the availability and potential benefits of these products. Rather, the proposed disclosures cast these products in a strictly negative light and have the effect of strongly discouraging the purchase of these voluntary products which benefit the consumer and reduce financial institution risk.

It appears that the Fed is trying to eliminate credit life and disability insurance products by requiring disclosures that is alarming in nature, and creates a tone that a consumer should distrust the provider because the product may not be needed, and that it is probably overpriced. We strongly disagree with this premise and recommend that the disclosures be changed to eliminate this falsehood.

The OCUL is not against disclosures as long as they are fair, accurate and in the consumer's best interest.

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OCUL believes that the Fed stay true to the current requirements in Regulation Z relating to insurance disclosures 1) that full and accurate disclosures must be provided to loan applicants; 2) that disclosures provide the opportunity to weigh and consider the possible benefits afforded; 3) that the available insurance is optional; and, 4) that obtaining a loan is not predicated on whether the applicant purchases the insurance protection or not.

The OCUL wishes to thank the Federal Reserve Board for the opportunity to comment on this important proposal. We appreciate your consideration of our recommendations in any further actions or final rules adopted.

Sincerely,



David J. Shoup
Director, Compliance & Information

cc: Mary Dunn, Credit Union National Association
Jennifer Ferguson, OCUL Chair
OCUL Board of Directors
Ohio Governmental Affairs Committee
Paul Mercer, OCUL President