December 15, 2010

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

Re: Proposed Rule – Revisions to Reg Z – Credit Protection Products
Docket No. R-1390

Dear Ms. Johnson:

I am writing on behalf of HUB Financial Services to oppose the changes to the credit insurance and debt protection rules. We believe that the disclosures are misleading and will hurt not only our business, but our financial institution clients and their borrowers as well. The consumer is the most at risk.

Our company administers loan related protection plans to several financial institutions. We have been offering Payment Protection on consumer loans and mortgages since 1972 and have found it to be a very beneficial product for many reasons. It assists borrowers with paying off a loan or compensates loan payments in time of need. It provides a valuable monetary benefit, as well as peace of mind, knowing that a borrower's debt will be taken care of if they unexpectedly die, become suddenly sick or hurt and unable to work, or unemployed. It also helps protect a borrower's credit rating, which is invaluable when it comes to managing their finances.

We have received comments from numerous borrowers who have shown much appreciation for the protection. The gratitude and goodwill established when benefits are applied to a loan cannot be ignored – you cannot put a dollar value on the tremendous customer service this provides to a borrower of our financial institutions. My suggestion - I would please ask you to discuss the benefits with a group of loan customers who have received benefits and find out how they feel about this service offered by their financial institution.

Credit Protection is a very beneficial product for our financial institution clients as well. Having credit protection on loans provides extra assurance that the loans will be paid on time. This decreases a bank or credit union's charge-offs and loan losses. The collections departments of many institutions will confirm that from 30% to as much as 60% of loan delinquencies are the direct result of the primary borrower becoming suddenly sick or hurt and unable to work, losing their job, or experiencing the unexpected death of either wage earner on the loan. These are the major causes of loans that go delinquent.

These products and services also provide a valuable source of non-interest income for our financial institution clients. All of this plays a vital role in the safety and soundness of an institution.

When our clients offer credit protection to their borrowers, they do so in a responsible manner designed to follow the law and fully inform their borrowers about the product. We always provide our clients with proper training and make sure they utilize all required disclosures. We do not object to providing new or revised disclosures, as long as such disclosures are reasonable and accurate.

However, we believe the proposed disclosures are inaccurate and misleading to consumers. The tone of the disclosures is also unduly negative and alarmist. Some of the disclosures of most concern are:

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

Such a statement is inconsistent with the advice given by financial planning experts which is that most American families need more, not less, life insurance. And consumers agree. In a recent survey, 50% of households felt they needed more life insurance.[1]

Purchase of credit protection products provides valuable coverage, even to consumers who already have their own insurance, because they will not have to deplete their other coverage in order to pay off their debts. For example, a borrower may have a $100,000 term life policy. But purchasing credit insurance on their $30,000 auto loan provides $30,000 in additional benefits, plus ensures that the vehicle loan is paid off and that the bank's lien on the vehicle is extinguished. In such a scenario, a borrower's beneficiary will net $100,000 in life insurance proceeds AND a fully paid-for vehicle with no lien on it. Without credit insurance, a borrower's family would have to continue making payments on the vehicle (or risk repossession). This nets a borrower's family only $70,000 of life insurance and continues the burden of making monthly payments on the loan.

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

This statement implies, for example, that term life insurance products are similar to credit life insurance products. But they are not similar. While both types of policies provide benefits upon the insured's death, the comparison stops there.

For example, typical credit life insurance certificates have one health question. The only other eligibility requirement at time of application is that the consumer must be under a certain age (typically 66 or 70 depending on the state). This is generally mandated by state insurance law and insurance company underwriting standards. The consumer checks one box and completes a very brief application at loan closing while conveniently sitting in a bank's retail banking center. The cost for credit life insurance is already mandated and regulated by state law and this cost is based only on the loan amount. A consumer taking a $10,000 loan would pay about $6.00 or $7.00 per month for credit life insurance (the monthly premium will decrease as the loan balance decreases).[2] For a low monthly cost, the consumer easily and conveniently obtains just enough life insurance to cover the loan, even if he or she has some health issues, and regardless of the consumer's occupation, smoking status, or recreational interests.

The big advantages of Credit Protection include:

1.) Exact amount – provides exactly the additional amount of protection the borrower needs, because it protects just their loan
2.) Exact time – provides the borrower the protection for when it matters the most, when there is a balance on the loan that would impact their family financially
3.) Convenience of premium payment – there are no separate checks to write, no separate bills to pay, and it is part of the loan payment; one of the most convenient ways to pay for protection
4.) Refund – if the borrower pays their loan off early, they will receive some of their premium back; which means they are paying for the exact amount for the exact time
5.) Easy application – the borrower gets the valuable protection from their trusted banker; it takes less than 2 minutes; which means they don't have to go to an insurance agent, no doctors to visit, and no blood work or physicals
6.) Joint Life – primary and co-borrower get to protect each other, and this makes sense because the loan impacts them both financially. In addition, there is a savings in premium for the second borrower.
7.) Without affecting existing insurance – as alluded to above, borrowers can protect their loan without affecting their existing life insurance. If there is an unexpected death, the loan is paid off and the life insurance is still there; all of it.

On the other hand, to purchase term life insurance, the consumer typically must apply for a minimum of $100,000 of life insurance. The application is lengthy. It can be several pages long with over two dozen questions regarding the consumer's health and family history, covering a broad array of health concerns and diseases, including smoking, prescription drugs, cancer, diabetes, seizures, and depression. There are also questions about the applicant's finances, occupation, and recreational interests. Detailed responses are required on all answers, and the consumer's medical records are obtained and reviewed by the insurer. In some cases, blood and urine samples are collected and analyzed. Even if the applicant qualifies for coverage, the cost depends on the term of the policy, the insured's age, health, smoking status, and the amount of the policy benefit. After all of this, the out-of-pocket cost of the term life policy may not be less than the monthly cost of credit life insurance. For consumers who are older or not in excellent health, term life insurance can cost more each month than credit protection.[3]

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

This statement is apparently an attempt to tell the consumer that there are eligibility requirements, conditions and exclusions that could prevent the consumer from receiving benefits under the policy. This is not, however, what the language conveys. The language could lead consumers to mistakenly conclude that, if a cash benefit is not paid, then buying the product is a waste of money. This is absurd, however, since consumers buy insurance policies all the time while hoping that the covered event never occurs. Just because the borrower did not die during the term of the loan does not mean that purchasing credit life insurance was a bad purchase, or provided little value.

This statement is also very alarmist. It makes it sound like buying credit protection is a rip-off. On the contrary; according to *Minnesota Life,* our credit protection provider, they deny less than 6% of credit insurance claims and less than 15% of debt cancellation claims due to eligibility restrictions and/or a determination that the consumer was never eligible for coverage in the first place. There is simply no need to alarm the consumer or mislead them into thinking that they will not receive benefits under the program. Any company trying to find ways of not paying a claim, would not remain in this business. This is a ridiculous assertion to convey to a prospective borrower.

We believe that there is an effective alternative to this language:

> "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."

This language is required by the OCC under its debt protection rules. It is objective and factual and tells the consumer where to find further explanation, with no underlying tone of bias or negativity.

OTHER OBJECTIONS TO THE PROPOSED RULES

Besides the content of the disclosures, we have two objections to the proposal generally.

Faulty consumer testing of the disclosures. First, the Board has based the new disclosures on consumer testing. However, they were tested by only ten consumers in the first round of testing, and eight consumers in the second round of testing. This 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.

The Board is overreaching. Second, the proposed disclosures go beyond the purpose and language of the Truth-in-Lending Act. This is also true for the proposed rule that would include premiums and fees in the APR on mortgage loans. The language of TILA allows premiums and fees to be excluded from the APR if the cost is disclosed, the consumer affirmatively elects coverage, and if "coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit."

The Board must prescribe regulations to "carry out the purpose" of the Act. But we question how the regulations could carry out the purpose of the Act when the Act itself specifically allows exclusion of credit insurance from the cost of credit. The Board's proposed rule that the cost of credit protection be included in a mortgage loan's APR directly contradicts the plain language of TILA.

The Board also states that it has authority to expand the disclosures. According to the Board, it is relying on the "voluntariness" standard cited in the statute. In other words, in order to exclude premiums and fees from the APR, the product must be "voluntary." The Board argues that the product is not voluntary if, for example, the consumer enrolls in protection that he never qualified for; or if the consumer does not know that there are "less expensive" alternatives; or if he does not know that there are eligibility requirements at claim time. Therefore, the Board argues, it can expand the disclosure requirements to avoid these scenarios.

We would argue, however, that the Board should take another look at the language of the statute. The statute does not use the word, "voluntary." It states that the coverage must not be a factor in the approval by the creditor of the extension of credit. Whether a borrower is eligible for coverage at enrollment or at claim time, or whether there are other less expensive alternatives in the marketplace, has nothing to do with whether the coverage was a factor in a bank's loan approval. The Board has wandered far afield of the intent and specific language of TILA. Whether a borrower purchases credit protection does not factor into a bank's credit decision. As such, a financial institution should be able to exclude the cost of the product from the APR, and should not be subject to additional, misleading disclosures that have no statutory basis for their existence.

Including voluntary fees and premiums in the APR will hurt the ability of a consumer to comparison shop. Including the cost of credit protection in the APR for closed-end mortgage loans (as well as the other additional fees that the Board is proposing) will hurt consumers. It will skew the APR and will, by definition, force a consumer to compare apples to oranges when comparing loans between lenders. The consumer will have no way of knowing which products and/or fees are in one lender's APR, and which are in another's. The Board's own research has continually shown that consumers do not understand the effective APR. The Board should eliminate all fees from the APR, similar to what it has done for credit card statement requirements. It should not adopt the all-inclusive APR.

CONCLUSION

We believe the additional disclosures will hurt our banking clients and their borrowers. They are misleading, negative and inaccurate, and do not further the purpose of TILA. These disclosures will scare consumers away from buying a product that could have great benefit to them, plus hurt the safety and soundness of an institution. In effect, they warn consumers away from selecting Payment Protection. And this is wrong.

We also believe that including the credit protection premiums and fees in the APR will hurt consumers. They do not understand the effective APR, and forcing a financial institution to include fees in the APR will cause the consumer to compare apples to oranges when shopping for credit. This defeats the purpose of TILA.

We ask the Board to withdraw the credit protection proposal or, alternatively, to reconsider more balanced, objective disclosures.

Sincerely,

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[1]Trends in Life Insurance Ownership, August 27, 2010, LIMRA International, Windsor, CT.

[2]Calculation based on current prima facie rates as set forth in Minnesota Rules, Part 2760.0050.

[3]For example, if purchasing a typical Minnesota Life term life policy of $100,000 with a five year term, a 45 year old male in the highest-rate health category would pay $6.17 per month for a $100,000 five-year policy. A 35-year old in "standard" health would also pay $6.17 per month for the same $100,000 five-year policy. So, compared to credit life insurance on a $10,000 loan at a cost of $6.15 per month, even if a consumer was in excellent health, if he is older than 45, he'd be paying more for term life; if he was in "standard" health and any older than 35, he'd be paying more for term life. *(Based on rates filed and approved with the Minnesota Commerce Department for Minnesota Life's Advantage Elite 10 term life product.)*