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December 22, 2010

**BY FEDERAL E-RULEMAKING PORTAL**

Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

**RE: Docket No. R-1390 – Regulation Z, Proposed Rules Concerning  
Change to Debt Cancellation Disclosures**

Dear Ms. Johnson,

The Retail Industry Leaders Association (RILA) respectfully submits these comments in response to the Federal Reserve Board's (the Board) proposed rule (Docket No. R-1390) that would amend Regulation Z's provisions that apply to providing disclosures on credit applications for debt cancellation products and other similar products, which were published on September 24, 2010 (Proposed Rule).

RILA is the trade association of the world's largest and most innovative retail companies. RILA members include more than 200 retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales, millions of American jobs and more than 100,000 stores, manufacturing facilities and distribution centers domestically and abroad.

RILA members – with their financial services partners – offer millions of consumers a wide variety of credit options every day. We strongly support the need for our customers to understand fully the nature and responsibilities of all credit products they sign up for, including debt cancellation protection. As such, we value the Board's commitment to consumer protection and to practical and workable solutions for the implementation of these regulations. Additionally, we are grateful for the opportunity to provide comments on the Proposed Rule, in particular comments regarding the proposed changes to the required debt cancellation protection disclosures. Specifically, we offer comments on how such proposed changes could affect the retail sector, retail credit card programs and customers.

Debt cancellation protection is offered by some RILA members with credit products through private label financing and credit cards. Our members provide these products as a low-cost option for consumers to protect themselves against unforeseen circumstances that may prevent them from being able to make payments on their credit obligations, such as unemployment, hospitalization, disability and/or death.

We are concerned that the very tone of the proposed disclosure implies a bias against such products that is tantamount to a government warning against the products rather than merely requiring proper disclosure of the terms and conditions of the products. RILA believes that debt cancellation products provide benefits to consumers, including the following:

- 1) Providing cost effective protection to the consumer that is based upon the consumer's outstanding balance rather than for a set minimum benefit that the consumer may not need;
- 2) Covering a broader range of incidents than common life insurance, including: unemployment, hospitalization, disability and a range of other qualifying life events;
- 3) Providing peace of mind as well as substantial benefits during what can be otherwise trying circumstances; and
- 4) Allowing the customer to add or delete the coverage on most open-end debt cancellation plans when needed because the premium or charge is simply a monthly fee based on the outstanding balance.

Moreover, Regulation Z already requires creditors to take steps to ensure that consumers are informed about the elective debt cancellation plans, including:

- 1) A written disclosure that debt cancellation coverage is not required by the creditor;
- 2) The fee or premium for the initial term of coverage is disclosed in writing;
- 3) A written disclosure that the obligation to pay loan principal and interest is only suspended, and that interest will continue to accrue during the period of suspension (if applicable); and
- 4) A requirement that the consumer sign or initial an affirmative written request for coverage after receiving the disclosures.

We respectfully submit that the proposed changes to the disclosures, by contrast, require statements that in many instances, particularly for retail credit, are simply misleading and would provide a disservice to consumers.

For example, we believe the statement in the Proposed Rule – “Other types of insurance can give you similar benefits and are often less expensive” – is not accurate for retail credit, keeping in mind that credit balances for retail credit products are relatively small balances. It would be very difficult for a consumer to find a life or disability insurance product for such a small amount. A consumer would be forced to purchase a product with a much higher benefit just to meet an insurance company's minimum benefit and would likely pay a much higher premium for such product. Similarly, finding a policy offered by an insurance company to pay off credit balances

in case of involuntary unemployment or because of an event triggered by a pre-existing condition would be extremely difficult for a consumer.

Additionally, the proposed requirement to disclose the maximum benefit is not relevant to the type of debt cancellation products typically offered by RILA's member companies. If the consumer makes the premium payments and a triggering event occurs, that consumer's balance is paid in full. Requiring disclosure of the maximum amount the customer would have to pay would be confusing and misleading to the customer because most people do not utilize the maximum on their credit lines (in fact, they utilize only a small percentage of the line). This requirement would mislead the consumer to think that they would have to pay the quoted amount for coverage when in fact it would be substantially less than that amount. Regulations do not require the disclosure of the minimum payment if the credit line was fully utilized, and that is something that the customer could not avoid if they had a balance. Therefore, requiring disclosure of the maximum amount that could be paid for debt cancellation would only confuse customers into thinking they could not cancel it, and suggest a bias against this type of protection such that consumers should not buy it.

For open-end credit, because of other disclosure requirements, it would be systematically impossible for retailers to quantify the maximum debt cancellation premium by size of individual credit line without reworking the other credit disclosures that must also be individually disclosed for the consumer. This would require system work by both banks and retailers, many of whom do not have the systems capability to make that individualized disclosure and currently use preprinted forms, which cannot vary by line size. Accordingly, the Proposed Rule could result in the discontinuation of debt cancellation protection products by retailers unable to make such system changes, which would reduce the availability of credit options for consumers.

Lastly, RILA is concerned by the proposed requirement that credit issuers make the following statement, in bold and underlined: "**You may not receive any benefits even if you buy this product.**" We believe this statement is unduly biased and represents an overly broad government warning that the consumer should not purchase this product. We believe there is a key distinction between the federal government ensuring that proper disclosures are made by credit issuers, and making recommendations or warnings on what products consumers should or should not purchase. It is our view that this statement, coupled with the entire tone of the disclosure as a whole, is effectively a government recommendation to the consumer against the purchase of debt cancellation products.

We ask the Board to reconsider the implementation of these proposed rules. The disclosure standards detailed in Regulation Z § 226.4(d) are more than adequate to protect the consumer, and they are fair and unbiased.

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RILA appreciates the opportunity to share its comments with the Board on the Proposed Rule. We would be pleased to discuss RILA's views with you further at your convenience. Should you have any additional questions or concerns, you may reach me by phone at (703) 600-2065, or by email at [doug.thompson@rila.org](mailto:doug.thompson@rila.org).

Respectfully submitted,



Doug Thompson  
Vice President, Government Affairs