



December 29, 2003

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

Subject: Docket No. R-1167

Dear Ms. Johnson:

Boeing Employees' Credit Union (BECU) appreciates the opportunity to comment on the proposed amendments to Regulation Z and to provide input regarding Debt Cancellation and Debt Suspension Agreement. BECU is a state-chartered federally insured credit union with assets of \$4.7 billion and a membership base of over 350,000.

We admire the Federal Reserve Board's effort but we do not believe this would be beneficial to the consumers or lenders. These are our concerns:

**Clear and Conspicuous:** The regulations are written in a manner that is not reasonably understandable. So asking lenders to write their disclosures in plain language is asking lenders to do what the regulators themselves could not do. The requirements for plain language, large typeface, wide margins and ample line spacing on all disclosures (ads, application contracts, etc.) will force lenders to revise nearly every loan document and disclosure. In our opinion, we do not believe this creates any benefit for consumers except that it will be less eyestrain for them. The disadvantages to consumers and lenders will include many federal disclosures competing for prominence within documents, contractual terms, state regulation and industry rules being delegated to a secondary position with the potential of being ignored by consumers. Consumers may be overwhelmed and intimidated by the amount of paper or information being provided to them.

In our opinion, lenders face challenges with providing all the required disclosures and contractual terms to consumers in a manner that is as clear as possible while balancing the needs of consumers to deal with fewer documents, less signatures and less follow-up. The greatest percentage of lenders want to ensure all terms and disclosures are provided in a manner that the consumer understands and agrees to, appreciates the relationship and returns to their lender for future lending opportunities. We feel this proposal's purpose may be to address those few lenders who do not practice lending in this manner and who will probably not comply with these rules no matter how they're revised.

A couple examples of why this is unreasonable:

- Our Loan Booklet is already 45 pages long at 8-point font. If we change headers and formatting, this might increase the document by another quarter.
  
- Our credit agreement has some small font to enable it to be on one legal size document. It will have to go to more pages to comply with the proposal.

**Rescission:** Amount portion of the proposal: Requiring lenders to use amount in every case versus the ability to write a narrative description of what the amount equals can create some operational issues for lenders.

Rescission Notice portion of the proposal: We feel the proposal would be better if the regulation required lenders to add to whom the notice must be sent to at the institution rather than if the consumer sends the notification to someone other than the creditor or assignee, state law would determine whether delivery to that person constitutes delivery to the creditor.

Here is our input regarding Debt Cancellation and Debt Suspension Agreements. We will address the questions that you provided:

1. What are the similarities and differences among credit insurance, debt cancellation coverage, and debt suspension coverage, in the case of both closed-end and open-end credit?

**Similarities:**

- Credit should not be conditioned on borrower buying any of these products.
- Consumers should be told the amount of the fees charged.
- Consumers should have the ability to pay a refundable lump sum or periodic payments.
- Consumers should be provided certificate of coverage explaining terms and conditions of coverage.
- Coverage is provided by third party vendor.
- They can be structured to provide the same benefits to the borrower, as in total debt cancellation, in the case of death or making payments in the case of disability. Under debt cancellation, it is not necessary to mirror standard credit life and disability insurance products.

**Differences:**

- A federal appellate court concluded that debt cancellation products do not constitute the business of insurance under state regulation (First National Bank of Eastern Arkansas vs. Taylor – 8<sup>th</sup> circuit 1990). Both state and federal credit union statutes allow credit unions to offer debt cancellation and debt suspension under its powers incidental to its lending authority without engaging in the business of insurance.

2. With what types of closed-end and open-end credit are debt cancellation and debt suspension products sold? Do creditors typically package multiple types of coverage (disability and divorce) or sell them separately? Do creditors typically sell the products at or after consummation (for closed-end) or account opening (for open-end credit plans)?

From our research, typically the products are offered cafeteria style allowing the borrower to pick the type of coverage desired, such as life, disability, and unemployment. In some cases, bundled products are suggested. They are sold at origination and anytime during the life of the loan. We've also read they can be offered with both open-end and closed-end credit. The types of coverage can be tailored to individual needs. It is our understanding the coverage is primarily sold at account opening regardless of the type of credit plan.

3. What disclosures are made with the sale of a product or upon conversion from one product to another, whether by TILA or other laws? How are monthly or other periodic fees disclosed to the consumers?

Consumers are provided the eligibility requirements, conditions, and exclusions at the time of or within a timely manner after obtaining the product. If the amount is financed and closed-end or open-end, the amount is disclosed and the periodic fee is normally calculated as a portion of the amount paid. Also, borrowers' signatures are required and disclosures of the cost and how it is calculated is provided to the borrower.

4. Under Regulation Z, fees for credit protection programs written in connection with a credit transaction are finance charges but some fees may be excluded from the disclosed finance charge if required disclosures are made and the consumer affirmatively elects the optional coverage in writing. Is there a need for guidance concerning the applicability of those provisions to certain types of coverage now available? Are the required disclosures adequate for all types of products subject to the regulation?

In our opinion, the Regulation Z disclosure is sufficient when coupled with disclosures and the coverage.

5. Under TILA, a credit card issuer must notify a consumer before changing the consumer's credit insurance provider. Card issuers that intend to change credit insurance providers need only notify consumers that they may opt out of the new coverage. Should the FRB interpret or amend the regulation to address conversions from credit insurance to debt cancellation or debt suspension agreements? If so, is there a need to address conversions other than for credit card accounts?

No. Regulation Z states we must provide a copy of the new policy or group certificate containing the basic terms of the insurance, including the rate to be charged. The member is provided the ability to opt out of the new coverage. In our opinion, we feel this is sufficient. Remember that this is not insurance, it is debt cancellation or suspension and is a contract between the lender and the borrower.

6. OCC regulations for national bank sales of debt cancellation and suspension agreements require a customer's affirmative election of the product. If the FRB interprets or amends the regulation to address conversions from credit insurance to debt cancellation or debt suspension agreements, what additional guidance would card issuers need if any to comply with both rules?

None. Hopefully, the FRB will allow the current rule regarding disclosure of insurance provider changes to apply to conversion. If any change needs to be done, then perhaps it is handled as a change in terms – 15 days advance notice detailing the differences in protections, providing consumers the ability to opt-out of coverage. We feel that no affirmative election needs to be obtained.

Thank you for the opportunity to respond to the proposal and provide input on the debt cancellation/suspension questions. We look forward to the final outcome.

Sincerely,

A handwritten signature in cursive script, appearing to read "G. Oakland".

Gary J. Oakland  
President and CEO

*Sent without signature to expedite delivery.*

Joe Brancucci  
Vice President of Lending