



September 13, 2007

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

Re: Docket No. R-1286

Dear Members of the Federal Reserve Board of Governors:

I am writing on behalf of Aon Integramark, a debt cancellation service provider for the lending industry, including banks. Our comments relate to the proposed revisions to Regulation Z that impact the offering of debt cancellation. While we have discussed our comments in regard to debt cancellation, our comments apply equally to debt suspension.

I. Summary

Our comments focus on three aspects of the proposed revisions.

First, Aon supports the proposed revisions to Section 226.4(d)(4) permitting oral disclosures for telephone sales of debt cancellation if the creditor:

- (1) Maintains reasonable procedures to provide the disclosures to the consumer orally and maintains evidence that the consumer, after being provided the disclosures, affirmatively elected to purchase the insurance or coverage; and
- (2) Mails the required disclosures within three business days after the telephone purchase.

However, as a practical matter the mailing of the required disclosures within three business days is difficult if not impossible to meet. Thus, Aon requests that the FRB change “three business days” to “seven business days” for the reasons discussed below.

Second, related to the telephone sales provision, Aon requests that a similar provision be applied to the sale of debt cancellation at the point-of-sale in retail establishments. For the reasons discussed below, retail establishments present similar challenges to obtaining signatures. In connection with this request, Aon suggests adding a right to cancel to the required disclosures

similar to that provided for in the Office of the Comptroller of the Currency debt cancellation regulations.

Third, Aon requests that the decision to continue to limit the exclusion from finance charge for debt cancellation charges permitted by Section 226.4(d)(3) to charges for coverage for accident or loss of life, health or income be reconsidered. Aon believes that the types of covered events should be expanded for the reasons discussed below.

## II. Three Business Days

Our request for an increased number of days to mail required disclosures is based on the practical reality of the time it takes to communicate and process a request for debt cancellation. Telephone sales of debt cancellation are often conducted by a third party service provider hired by the bank. If a customer requests debt cancellation this request is communicated by the service provider to the bank and the consumer's account information and eligibility to obtain debt cancellation is verified by the bank. The bank generally hires another third party service provider, such as Aon, to provide the required disclosures to the consumer. Thus, the bank must communicate to the third party service provider the consumer's name and address and type of debt cancellation requested so that the appropriate disclosures can be sent to the consumer. When the third party service provider receives the information from the bank, the service provider must assemble and mail the appropriate disclosures to the consumer. Each of these steps can take a day or two. Additionally, the sale may occur in the evening, meaning an entire day is lost. Giving lenders seven business days will allow lenders to fully comply with the regulatory requirement on a timely basis while keeping in place the necessary consumer protections that the revision is designed to address.

Additionally, under the OCC debt cancellation regulations, which most banks voluntarily follow even if they are not national banks, if the sale of debt cancellation occurs by telephone, the bank must permit the customer to cancel the purchase of the contract without penalty within 30 days after the bank has mailed the disclosures. *See* 12 C.F.R. § 37.7(b)(3). Thus, the consumer can cancel the debt cancellation once the disclosures are received. This provides an additional level of consumer protection.

The current three business days in the proposal gives the lender no time to resolve any errors or unexpected events that may arise during the processing of a request for debt cancellation. Whether disclosures are mailed to consumers within three business days or seven business days, will have little or no impact on consumer, while the additional days will greatly improve the banks' ability to accurately and timely provide the disclosures. A seven business day period will give lenders a reasonable period of time to comply with the disclosure requirement while still ensuring that consumers receive the required disclosures within a reasonable period of time.

Thus, Aon requests that "three business days" be replaced with "seven business days" in the proposed telephone sales provision in Section 226.4(d)(4).

### III. Point-of-Sale

Aon requests that an exception from the affirmative written request be added to Section 226.4(d) for sales of debt cancellation at the point-of-sale. This exception would be similar to the exception in the OCC debt cancellation regulations for written mail inserts or “take-one” applications. *See* 12 C.F.R. §§ 37.6(c)(4), 37.7(c).

It is difficult for lenders to monitor the actions of retail clerks that process requests for debt cancellation at the point-of-sale. Unlike a traditional loan that involves a face-to-face interaction between a loan officer and a consumer, sales of debt cancellation at the point-of-sale involve a written solicitation that is processed by a store clerk. Aon recommends that an exception patterned after the OCC debt cancellation regulations such as the following be added to 226.4(d) after the proposed telephone sales provision:

(5) Point-of-Sale. If a consumer purchases debt cancellation or debt suspension coverage at the point-of-sale in a retail establishment solicited through written materials or “take-one” applications containing the disclosures required by paragraph (d)(3)(i) through (iii) of this section, the creditor shall mail a second copy of the required disclosures to the customer within 7 business days, beginning on the first business day after the sale. The creditor may not obligate the customer to pay for the debt cancellation or debt suspension contract unless the creditor:

- (1) Maintains sufficient documentation to show that the creditor provided the required disclosures in the written materials;
- (2) Maintains sufficient documentation to show that the creditor made reasonable efforts to obtain a signature or initials from the consumer on the request for debt cancellation or debt suspension; and
- (3) Permits the customer to cancel the purchase of the debt cancellation or debt suspension contract without penalty within 30 days after the creditor has mailed the disclosures.

The above provision contains additional consumer protections in the form of a right to cancel and makes the Regulation Z debt cancellation provision consistent with the OCC debt cancellation regulations.

#### IV. Scope of Debt Cancellation

The exclusion of debt cancellation charges from the finance charge is based on 15 U.S.C. § 1605(b), which provides:

Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charges unless

- (1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and
- (2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

Regulation Z provides that the exclusion from finance charge provisions apply to “fees paid for debt cancellation coverage that provides for cancellation of all or part of the debtor's liability for amounts exceeding the value of the collateral securing the obligation, or in the event of the loss of life, health, or income or in case of accident. 12 C.F.R. § 226.4(d)(4)(ii). The FRB has considered this provision and proposes no change.

Comparing the statute, “credit life, accident or health insurance,” and the regulation, “debt cancellation coverage that provides for cancellation of all or part of a debtor’s liability. . . in the event of the loss of life, health, or income or in case of accident,” indicates that the regulation has expanded on the statute to include similar products.

The official staff interpretations to Section 226.4(b)(10) defines “debt cancellation” as coverage providing for payment or satisfaction of all or part of a debt when “a specified event occurs.” *Id.*, Supp. I, Comment 1. Thus, debt cancellation is not limited to any specified events, but the fee is excluded from the finance charge only if it covers an event listed in Section 226.4(d)(4)(ii).

The more recently adopted OCC debt cancellation regulations define debt cancellation as a loan term or contractual arrangement modifying loan terms under which a bank agrees to cancel all or part of a customer's obligation to repay an extension of credit from that bank upon the occurrence of a specified event. 12 C.F.R. § 37.2(f). Thus, the OCC regulations do not limit the specified events. The OCC debt cancellation regulations and Regulation Z debt cancellation provision should be consistent in their coverage.

There is no rational reason to only exclude debt cancellation fees tied to certain events from the finance charge. As lenders are offering additional forms of debt cancellation, these

products should be treated consistently with other forms of debt cancellation coverage. The ability of lenders to offer debt cancellation to cover events that impair a borrower's ability to repay a loan, but are not covered under traditional credit insurance policies (divorce, childbirth, family leave of absence) is one of the benefits of debt cancellation. This is the appropriate time to bring Regulation Z into compliance with the market place. All debt cancellation fees that meet the disclosure requirements should be excluded from the finance charge.

Aon recommends that Section 226.4(d)(3) be revised to remove the phrase "in the event of the loss of life, health, or income or in case of an accident," so that the provision applies to all forms of debt cancellation. The recommended revision will make the Regulation Z provision on debt cancellation consistent with the OCC debt cancellation regulations and the practices in the marketplace.

Aon urges the FRB to give serious consideration to the three points discussed in this letter. Please do not hesitate to contact me with any questions or to request additional information.

Best regards,

A handwritten signature in black ink, appearing to read "Tom Ostenson". The signature is fluid and cursive, with a large initial "T" and "O".

Tom Ostenson  
Senior Vice President and General Counsel  
Aon Integramark