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December 17, 2010

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

**Re: Regulation Z Outlined in Docket No. R-1390**

Dear Ms. Johnson:

The Pennsylvania Credit Union Association (PCUA) is a state-wide trade organization that represents a majority of the 545 credit unions located in the Commonwealth of Pennsylvania. On behalf of our member credit unions, we appreciate this opportunity to provide comments to the Federal Reserve Board (FRB) regarding Regulation Z as it pertains to credit insurance and debt suspension/cancellation protection disclosures, the right of rescission and the refund of fees.

The PCUA consulted with its Regulatory Review Committee (the Committee) in order to provide comments on the proposed disclosures. The Committee consists of twelve (12) credit union CEOs who lead the management teams of Pennsylvania's state and federally-chartered credit unions. Members of the Committees also represent credit unions of all asset sizes. The comments contained in this letter reflect the input of this Committee and PCUA staff.

First and foremost the Committee and staff appreciate the FRB's actions at protecting the consumer. Pennsylvania credit unions' first concern, after maintaining safety and soundness, is protecting their members and the communities in which they serve. PCUA credit union membership diligently engages in safe practices that ensure their members, who are the owners of their credit union, receive adequate and fair disclosure of the terms and conditions of any product or service offered. A credit union has no incentive to extend any product or service that could be contrary to the interests of a member/owner.

#### Credit Insurance and Debt Suspension/Cancellation Protection Disclosures

The Committee and staff have concerns that the proposed sample disclosures are misleading. If implemented as written they would have a detrimental affect on Pennsylvania credit union member/owners and all financial consumers. The Committee and staff encourage the FRB to provide the consumer with more accurate and balanced information about payment protection products. In the analysis that follows, we used proposed disclosure G-16(A), Credit Insurance, Debt Cancellation Coverage or Debt Suspension Coverage Model Form. The analysis applies to all of the proposed credit insurance-related disclosures.

Form G-16(A) begins by urging the consumer to, "**STOP**. You do **not** have to buy Credit Life Insurance to get this line of credit." The proposed language is not a device that educates the consumer about the

value of the product, but a deterrent or warning away from a credit insurance product. In no way does it state why or how the insurance could benefit the member/owner. This statement unduly casts the product in a negative manner and discourages the member/owner from purchasing a product that could offer significant value.

The first box in Form G-16(A) asks, "Do I need this product?" Two sentences later, it instructs the consumer that if she has enough insurance or savings, she might not need the product. We maintain that this disclosure language is misleading. Most financial planners devise plans based on the current financial health of their client(s) and do not take into account any future major purchase(s) or debt. Credit Insurance will supplement any new debt that is not realized in the member/owner's financial plan.

Secondly, the proposed language amounts to a very casual, bordering on an irresponsible comparison to other types of insurance. Other types of insurance might be available. However, one cannot truly compare a credit life or debt suspension policy with term life, for example. Without providing examples the consumer will be incapable of making an educated decision further, while other types of insurance are available, they may not be available in the relatively smaller amounts to cover new obligations as is the case with a credit life policy. In addition, depending on the health of the consumer, other types of insurance might not be available. For these reasons, this proposed disclosure form must be reworked in a more balance way that serves the interest of comparative shopping and financial education.

Form G-16(A) also asks, "How much does it cost?" Some of the other sample disclosures include a statement that the premium could cost up to a specified dollar amount. Actually, the cost per month could constantly change depending upon declining or increasing the member/owner's balance. The disclosure is not balanced. It includes no mention of how the insurance would operate in the event the contingency occurs that triggers a benefit payment. A \$42 or \$63 monthly premium might prove very valuable, indeed, if the consumer is dislocated from employment or suffers a disability.

Finally, the series of proposed disclosures warns: "**You may not receive any benefits even if you buy this product.**" Common sense dictates that the consumer is better off not experiencing the calamity that triggers the coverage. Similarly a consumer does not wish to resort to the proceeds of other insurance products, such as automobile or fire insurance. Credit insurance and debt suspension/cancellation products provide the policy holder with the piece of mind that they and that their family will benefit from the protection plan in the event of a catastrophe.

Credit insurance and debt suspension/cancellation products should be viewed as an equivalent to life, medical and fire insurance. The protection and piece of mind that these products offer the policy owner is the incentive for reason of purchasing them. The policy owner does not wish to utilize them, however, when a catastrophic event occurs such as termination of employment, a medical emergency or home fire, the policy owner has insurance to cover the unexpected costs. During the so-called "Great Recession," the unemployment rate reached 9.8%. Credit insurance and debt suspension/cancellation products protect the member/owner's credit rating and his/her family's financial well being.

#### Rescission Notices

Credit unions, as consumer-friendly lenders, generally support the policy of permitting a consumer to rescind a mortgage or home equity loan, particularly if the consumer discovers that the loan may not best serve his/her needs or create a financial burden. Accordingly, we support and appreciate the changes to the rescission notice that clarify a consumer's right to rescind including the detachable form.

In stark contrast, the extended right to rescind represents a minefield of technical Regulation Z “violations,” that only foster litigation. The Federal Reserve should create a safe harbor for lenders, like credit unions, that offer conventional mortgages and home equity products. Extended protections consistent with the right to rescind may be appropriate in the case of lenders who deploy sharp and abusive practices and frequently change significant terms between the time of the application and loan closing. Credit unions are tired of carrying the compliance burden for bad actors and the commensurate compliance and legal exposures.

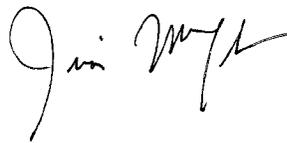
#### Refund of Fees

Consistent with the rescission argument above, we appreciate the merits of refunding fees if the borrower cancels a loan request in a timely manner. Unfortunately, the proposed timing rules are radically unclear and place a lender in a position of refunding fees out of an abundance of caution. The proposed rule appears to ignore legitimate and necessary costs such as appraisals and other processing costs. These rules add undue time and uncertainty to the mortgage or home equity process. In sum, credit unions support transparency with the aim of educating a consumer of the costs and value associated with a mortgage or home equity loan. In the end, the consumer has to make an informed decision and appreciate the value of the underlying credit. The refund rules as currently drafted create significant room for mischief and do not advance the interests of an informed consumer

In conclusion, the Committee and staff encourage The Federal Reserve Board to provide the consumer with more accurate and balanced information about payment protection products, create a safe harbor for lenders that offer conventional mortgages and home equity products, and clarify timing rules when dealing with refunding fees. The draft disclosures would tend to ward a consumer away from a product that offers tangible benefits. Credit unions encourage the role of the consumer to read, and educate themselves on the financial products and services they are purchasing. Thank you for permitting us to comment on proposed rule Docket No. R-1390.

Sincerely,

PENNSYLVANIA CREDIT UNION ASSOCIATION



James J. McCormack  
President/CEO

cc: R. Brunner  
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Regulatory Review Committee