

From: ORNL Federal Credit Union, Clay Kearley  
Subject: Regulation Z - Truth in Lending

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Comments:

Honorable Chairman Bernacke, Honorable Vice Chair Yellen, and Honorable Board Members, Warch, duke, Tarullo, and Raskin:

By now you have received innumerable comments from my distinguished colleagues in the Credit Union industry, as well as from those in the other segments of the financial services industry, our various trade associations, insurance vendor partners, the legal and educational industries and individual consumers, all extolling the Board to reconsider the recent proposal that will mandate specific disclosures for payment protection products, including credit life, credit disability, and debt cancellation and debt suspension coverage.

As with their comments, I desire to express my deepest concern over this proposal. In its current form and content we can in no way support it. Further, I believe it to be insufficiently conceived, tested, considered, and believe it to be in conflict with the Truth in Lending Act, and goes beyond the scope of the Board.

Development of the proposed disclosure though a limited sampling of 18 consumers is wholly insufficient. To my knowledge, the views of those who have used and benefited from it were not considered.

The proposed disclosures go beyond the purpose of the Truth In Lending Act. The proposed rule to include premiums and fees in the APR on mortgage loans is in conflict with TILA, which allows exclusion from APR if the cost is disclosed, the consumer affirmatively elects it and the coverage is not a factor in the credit decision.

The APR proposal complicates understanding by the consumer of APR and will make it even more difficult for consumers to understand how the APR is calculated and will make comparing the APRs of competing lenders impossible. APR calculations should be standardized.

I believe this is an example of the federal government going beyond the scope of its authority by driving changes to insurance product disclosures, which are typically regulated at the state level

While my credit union is an advocate of proper and informative disclosures that enable our members to make informed choices, I do not view this proposal as meeting those objectives. My credit union has always supported fair, accurate, and appropriate disclosures for members who purchase credit insurance and debt cancellation and suspension products. However, these proposed disclosures misrepresent the purpose and value of payment protection products to our credit union members. My credit union believes these types of products help credit union members make loans and other types of payments in times of financial need and we would encourage their views to be considered. As many of them have told us, these products have saved them financially in their times of need by saving their assets, protecting their credit rating, and enabling them to survive financially through difficult, even life-changing adversity. As has been presented to you in other commentary, industry data show that over \$2B in claims have been paid to consumers covered by these products in the past five years with a claims denial rate in the low single digit percentage.

I find the tone of the proposed disclosure to be very negative. I also believe

the content of the disclosure to be misleading, inaccurate and biased. This, in my view, does not promote education and assistance to the member in making an informed decision. Rather, unintentionally as it may be, it leads them to an implied, preferred decision that will be to their detriment by discouraging the product.

Among the proposed new disclosure language we find that exemplify our concerns:

"STOP." This is a statement of clear warning and sets the reader's frame of mind for the information to follow. This, in my view, is simply overkill. The effect of this single word magnifies the misleading, inaccurate and biased statements that follow.

"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 implies the purchase of the product to be unwise and is not in alignment with advice given by financial experts that most American families need more coverage, not less.

Other types of insurance can give you similar benefits and are often less expensive." This statement suggests these products are similar to life and disability insurance. Eligibility requirements are much less for credit insurance and debt cancellation products than life and disability insurance. Additionally, the cost for credit insurance and debt cancellation products do not vary by age as with life insurance. This compares apples to oranges and in my 25+ years experience in serving our members with loans, it is simply not true.

"You may not receive any benefits even if you buy this product." This implies that if a claim is never filed it is a waste of money. No one purchases insurance with that thought. Insurance and like products are protective in nature and provide peace of mind. Credit Insurance and Debt Cancellation products also provide protection for those who may not be eligible for other types of coverage at very reasonable rates. If the statement is intended to alert the member to eligibility requirements and exclusion, it should set forth a recommendation for them to explore those.

The implications to my credit union, like those of other credit unions and financial institutions that provide this beneficial product, will be adverse as well. Just as our members have benefited, the credit union has avoided loan losses. ORNL Federal Credit Union serves approximately 140,000 members in our community charter area. The estimated impact to us if this proposed disclosure is implemented would be a reduction of over \$700K in non-interest income and an increase of over \$500K in loan losses per year. The total amount of estimated lost income and the increased loan losses of the industry as a whole will be immense.

In my opinion, this is another part of the recent federal regulatory changes, including proposed regulations to be implemented, which will have material adverse impact on the economy as a whole. The impact of increase loan losses, reduced non-interest income, when added to the reduced non-interest income from the Credit Card Act, Debit Card Interchange Income proposal, and anticipated review and proposed limitation on credit card interchange income will produce adverse consequences to the cost of financial services to the consumer. Already we have seen financial institutions move to implement new fees on deposit and loans where there were none before. My fear is that new regulations will ensue that will cut off these sources. This will lead to a vicious circle of new fees and resulting regulations to limit or eliminate them until only interest income remains for financial institutions. At that point

interest rates will rise precipitously, choking off the U.S. economy.

We urge the Federal Reserve Board to change these disclosures so that they will instead reflect accurate, fair, and objective information about these payment protection products.

Sincerely,  
Clay Kearley  
Vice President  
ORNL Federal Credit Union