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December 23, 2009

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1367, Proposed Amendments to Regulation Z Provisions for Open-End Home Secured Credit

The Consumer Credit Industry Association (CCIA) is a national trade association of insurance companies and other financial service providers selling or servicing consumer credit insurance, consumer credit related lines of insurance and other consumer products and services typically provided in connection with consumer credit transactions whether or not insurance. Our member insurance companies account for more than 80% of the national premium volume written for these lines of insurance. Since incorporation in 1951 as an Illinois Not-For-Profit corporation, CCIA has been dedicated to preserving and enhancing the availability, utility, and integrity of insurance and insurance related products delivered through financial institutions or in connection with financial transactions.

The Board proposes to revise the rules for disclosure of open-end credit secured by real property or a consumer's dwelling, and to strengthen substantive protections for HELOC consumers, with the goal of improving the effectiveness of the disclosures creditors provide to consumers in connection with and throughout the life of a mortgage.

CCIA's interest in proposed amendments for open-end home secured credit is limited to credit insurance and debt cancellation and suspension products.

Many of the Board's proposed revisions for open-end credit are referenced in Docket R-1367, but are discussed with actual proposed text appearing in Docket R-1366. CCIA has filed comment for Docket R-1366 to address those proposals common to both Docket R-1366 and R-1367. Our comments that follow address issues of concern unique to Docket R-1367.

CCIA supports excluding voluntary credit insurance and debt cancellation and suspension charges from the HELOC finance charge definition.

The Board asks for comment as to "whether there are reasons why consideration should be given for changing the definition of finance charge for HELOC's." By our understanding, the question is whether or not to include charges for credit insurance and debt cancellation and suspension products in the definition of finance charge. Because the voluntary election of credit insurance and debt cancellation and suspension products is not a condition precedent to the granting of credit it is not a cost of credit, and accordingly should remain excluded from the finance charge calculation.

The Board notes that it is proposing [Docket R-1366] for closed-end home secured loans the inclusion in the finance charge definition of charges for voluntary credit insurance and debt cancellation and suspension charges. Relevant discussion questions whether consumers understand the purchase is an option, and the Board's proposed disclosure amendments reflect a predisposition that the products are costly compared to alternatives. Neither stands up to closer examination.

Consumer credit outstanding at the end of 2008 totaled $2,559.1 billion (Federal Reserve Statistical Release), excluding real estate secured loans. Credit life coverage in force at the end of 2008 totaled $214.8 billion (CCIA 2009 Fact Book). Thus, only 8.4% of consumer outstanding credit is covered by credit life insurance. Credit life insurance as defined for insurance reporting purposes includes coverage for HELOC's but excludes coverage for many closed-end real estate secured loans. So, while the comparison is not ideal it does indicate consumer awareness that election of credit insurance is an option.

Credit insurance can be cancelled. The purchase of credit insurance is optional. Existing law gives the borrower the right to cancel at any time and get a refund of unearned premium. Industry practice, required by law in many states, is to give a full refund within a "free look" period of 30 days. Recent experience is that at some point 14% to 19% of consumers electing credit life insurance subsequently voluntarily cancel the coverage (ACLI 2008 Fact Book). This indicates both consumer awareness of the right to cancel and an ability to exercise the right.

Periodic consumer studies and surveys repeatedly demonstrate that credit insurance consumers are aware of the credit insurance option, aware of their credit insurance election, aware of the cost, did not want to cancel, and would likely purchase the coverage in the future. Some of these studies were undertaken by the Board. Indeed, the most recent Board survey (*Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Thomas A. Durkin, Division of Research and Statistics, Federal Reserve Bulletin, April 2002) validates consumer satisfaction. The survey addressed installment, junior mortgage, and mortgage lending. Concerning credit insurance, the Board's survey concluded, "With respect to credit insurance because the views of users and nonusers seem so divergent, it seems important that the views of users be given sufficient weight in considering public policies in this area. According to the views expressed by many users of credit insurance, eliminating this product by regulation could be disadvantageous to them."

Credit insurance continues to have its critics. Much of the criticism is directed at the cost of credit insurance as compared to ordinary term life insurance either by premium rate or loss ratio. CCIA requested the attached actuarial analysis (*Term Insurance Versus Credit Life*, Christopher Hause, Actuarial Solutions, December 4, 2009) demonstrating that credit insurance is competitive by either measure. Credit insurance is one rate for all borrowers regardless of age or underwriting risk characteristics. In contrast, ordinary term life insurance is rated by age, health, family history of disease, and other factors. A young preferred risk (about 10% of the population) can purchase ordinary term life insurance at rates lower than credit life. However, as the age and adverse underwriting characteristics of the borrower increase, the premium rate for credit life becomes increasingly competitive, even cheap by comparison. Many, perhaps most, home equity borrowers are above the age of 45, an age when uniform credit insurance rates with few medical underwriting requirements are a clear benefit to those seeking life or disability insurance.

Given the rising incidence of home foreclosures in this dour economic cycle, it's important to emphasize that credit insurance doesn't cause foreclosures. Particularly in the subprime mortgage market, many foreclosures have been the consequence of negligent and fraudulent loan underwriting. In these situations the loan was doomed to fail with or without credit insurance. Other home loan foreclosures result from income disruptions caused by death, disability, and unemployment. Indeed, the consumer election of credit insurance certainly precluded some foreclosure actions.

Home ownership represents the largest investment most consumers will ever make. Yet, how do consumers protect themselves from foreclosure in the event of death, disability, or unemployment? Absent abundant savings, the answer is insurance or other similar protection. Credit insurance is one of the insurance options. Debt cancellation and suspension coverage is another option. Public policy should encourage the purchase of coverage to protect home equity, and facilitate that purchase by recognizing the need for many consumers to finance the premium charge.

CCIA does not oppose the proposed HELOC disclosures at application, account opening, and for periodic statements.

The Board is proposing format, timing, and content changes to model and sample forms applicable to HELOC account applications, account openings, and account periodic statements. The account application and opening

forms provide for "fees" and segregate "required fees" and "other fees." Credit insurance and debt cancellation and suspension products are to be generally described in the context of these form disclosures. These disclosures are adequate for the purpose. Specific information is disclosed in connection with separate credit insurance and debt cancellation and suspension forms being proposed in Docket R-1366 for which CCIA filed comment. Whether or not credit insurance or debt cancellation and suspension coverage was required, the periodic statement proposed format would disclose the charge under a separate heading titled "fees." While CCIA supports disclosure of charges for credit insurance and debt cancellation and suspension charges, we necessarily defer to the lenders as to systems and process changes that may be required to implement the proposals.

CCIA supports use of the term "required" in connection with insurance requirements. CCIA questions whether the Board is newly enabling creditors to require credit insurance or debt cancellation and suspension products.

The Board is proposing to require use of the term "required" if credit insurance or debt cancellation and suspension coverage is. in fact, required as part of the HELOC plan. This requirement is said to conform to the requirement already adopted for open-end, not home-secured credit. However, the long-standing rule has been that a creditor can require insurance but cannot require insurance be purchased from the creditor. In practice, a consumer would assign benefits from an existing insurance policy or newly obtained policy to the creditor. Since the typical credit insurance consumer has little or no other comparable insurance, credit insurance offered by the creditor may become the convenient and cost effective default option. Is the Board proposing that a creditor can now require credit insurance or debt cancellation and suspension coverage from the creditor? Board discussion of various disclosure proposals repeatedly makes reference to required credit insurance and debt cancellation and suspension coverage.

The Board earlier asked whether voluntary credit insurance and debt cancellation and suspension charges should be included in the HELOC finance charge calculation. Under the current rule the incidence of credit insurance being used to satisfy an insurance requirement is rare. Inclusion would devalue the distinction between required coverage and voluntary coverage. Absent the distinction, there may be an incentive for the creditor to require the traditional insurance, credit insurance, or debt cancellation and suspension coverage.

Nevertheless, CCIA supports disclosing a distinction between required and voluntary coverage to consumers.

CCIA supports retention of the ability to pass on premium rate increases to credit insurance consumers, and extending the ability to include fee increases for debt cancellation and suspension coverage.

The Board has decided to leave rule §226.5b(f)(3) unchanged as it applies to a creditor being able to pass on any voluntary credit insurance premium increase.

Credit insurance premium rates are regulated by state insurance departments and periodically reviewed as to reasonableness in relation to policy benefits. This review often results in a required premium rate adjustment. Required adjustments are applicable to existing open-end credit insurance programs. Credit insurance written in connection with HELOC's is an open-end monthly premium payment plan. Compliance with state insurance regulations requires implementation of premium rate adjustments. Thus, CCIA supports retention of the Regulation Z authorization to implement premium rate increases.

CCIA also supports extending to creditors the ability to pass on fee increases for debt cancellation and suspension coverage. Debt cancellation and suspension coverage plans written in connection with HELOC's are similar to credit insurance in some respects. Both utilize actuarial projections of expected consumer benefits in determining the appropriate plan charge. Both utilize a monthly payment plan. Both periodically review experience to determine whether plan pricing needs to be adjusted. Accordingly, debt cancellation and suspension plans should similarly be enabled to implement fee increases for existing accounts.

In closing. CCIA is committed to providing accurate information on credit insurance and debt protection products. To that end. the association and its members offer any assistance required to formulate a Board website to help consumers understand both the products and their rights. Additionally, we request that the CCIA website at

www.cciaonline.com be included as a prime resource.

Your consideration of these comments before promulgation of final rules is greatly appreciated. For any additional information, please contact the association at (312) 939-2242 x220 or by email at bburfeind@cciaonline.com

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Attachments: **Attachments not included**

Term Ins vs Credit Life - Rates - 2009 Update.pdf

Term Ins vs Credit Life - Loss Ratio - 2009 Update.pdf