November 20, 2010

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

Re: Proposed Changes to Credit Insurance Disclosures under Regulation Z and the Truth-in-Lending Act
Docket No. R-1390

Dear Ms Johnson:

Please accept this comment letter regarding proposed changes to the credit insurance disclosures under Regulation Z. The proposed changes represent poor public policy and dramatically decrease the accuracy of information available for consumers to make informed decisions regarding the purchase of credit insurance.

In exchange for premiums when a covered loss occurs, credit insurance continues payments (disability, unintentional unemployment), or extinguishes the entire remaining loan balance (life). This is clearly a desirable public good that consumers may purchase with minimal underwriting to protect the household against covered losses.

The major complaints against this coverage relate to market conduct issues and relative premium compared to more extensively underwritten coverage. These complaints are better mitigated through means other than replacing complete disclosures with significantly less complete disclosures.

I am writing mainly to ensure credit insurance remains available and viable as an optional insurance product for lower and lower-middle income consumers. In general, this market is quite underserved. Insurer interest is severely limited by unattractively small amounts of premium per policy and high expenses required relative to premium to maintain policies on insurer systems. Few opportunities exist on the open market to purchase small face amount life insurance policies and essentially none exist for purchasing small disability or involuntary unemployment insurance policies. If a consumer does not have access to company-sponsored benefits coverage may be non-existent.

Credit insurance has three specific purposes that no other coverage fulfills. The first specific purpose is the avoidance of household financial losses through "forced sales" upon a covered loss, especially if the asset purchased with the loan proceeds is a depreciating asset or a household "joint-use" asset and there is no other coverage or other significant assets. The vehicle purchased with the loan proceeds may be used by the whole family, may depreciate faster than the loan amortization schedule indicates, and may need to be used rather than sold.

The second specific purpose is to "buy time" by providing immediate stop-gap coverage until a more comprehensive permanent or longer-term coverage may be put into place through completion of the underwriting and issue process. The consumer may purchase credit insurance for this loan or for several months and then later purchase a life policy from an insurer.

The third specific purpose is that, while the institution is not allowed to tie the loan to purchase of any credit insurance, a financially stronger co-signer may require credit insurance of a financially weaker co-signer and main payer of the loan. An example of this purpose is a loan to purchase or rent/lease equipment necessary to fulfill a contract that will result in economic gain to repay the loan, but only if the contract is fulfilled by the financially weaker co-signer (small scale "key person" insurance).

A frequent complaint against credit life insurance is that the rate per thousand is high compared to a permanent life coverage that was underwritten. The premium per thousand is higher because underwriting amounts to a few questions, resulting in higher claim cost relative to premium. The premium per thousand is higher also because of expenses related to issuing and maintaining the policy. These expenses are lower than they would be for a fully underwritten life policy; however, they are significantly higher per thousand of coverage than larger life policies.

Permanent life coverage with a face amount under $15,000 is relatively difficult to find, though some insurers make at least one policy form available with smaller face amounts. Smaller face amounts are even more increasingly difficult to find and face amounts below around $2,500 are almost impossible to find.

Decades ago, industrial life insurance was available for very small face amounts and some of these policies are still inforce. While there may still be a few very small insurers offering industrial life insurance for new policy issue, its time has long passed as a significant product in the economy. The elimination of industrial life insurance availability leaves credit life insurance as the only remaining available small face amount coverage. State laws set maximum limits on coverage amounts for credit life insurance.

The proper comparison is the total premium on a life policy (including any annual policy fee) with credit life premium of the same face amount as the loan, not just the rate per thousand. Of course, the life policy would continue coverage after the loan is paid while the credit life coverage would decrease during the life of the loan and discontinue with the final loan payment. This makes complete cost comparisons difficult. For a $10,000 loan the credit life insurance might cost $0.60 per thousand per month, or $6.00 per month or $72 per year (the amount will decrease as the loan decreases). Gather some quotes on a $10,000 life policy at various ages, genders and levels of underwriting to find the total premium for that face amount.

In most cases, the credit life insurance premium responds to the coverage amount. As the coverage amount drops so does the premium. This benefit-responsive aspect should not be overlooked. I favor the monthly premium approach over the single premium approach to credit life insurance and making sure the credit life insurance only covers the outstanding loan principal rather than any higher amount. If this is not the case currently in the credit life insurance market, I prefer it move into that direction. In addition, a consumer should be able to select a maximum credit life insurance amount less than the full loan amount, for example, a consumer should be able to elect $5,000 credit life insurance coverage on a $10,000 loan.

As a consumer, if I were presented with the proposed disclosures, I would be completely offended. I have never purchased any form of credit insurance when it has been offered, however, the proposed disclosures don't provide enough information for anyone to make an informed decision.

The questions a disclosure should answer are in the attached pages next shown from the New York State Insurance Department website.

Life Insurance - Top Ten Questions

Credit Insurance

Credit Insurance is insurance that you can purchase when you take out a loan that protects both you and the lender in the event that you are unable to pay the loan due to death, disability or unemployment. Credit insurance is always sold in connection with a specific loan. The cost of the insurance (if any) if generally built into the loan payment.

1. What are the types of credit insurance?

   There are several types of credit insurance:

   Credit life insurance: Pays off your loan if you die.

   Credit disability insurance: Also called accident and health insurance. Pays a monthly benefit directly to the lender equal to the loan's minimum monthly payment if you become disabled. You must remain disabled for a certain number of days before a benefit is paid. In some cases, the benefit is retroactive to the first day of disability. In other cases, the benefit begins only after the waiting period is satisfied. Common waiting periods are 14 days and 30 days.

   Credit unemployment insurance: Also called credit involuntary unemployment insurance. Pays a monthly benefit directly to the lender equal to the loan's minimum monthly payment if you become involuntarily unemployed such as through a layoff. You must remain unemployed for a certain number of days before a benefit is paid. In some cases, the benefit is retroactive to the first day of unemployment. In other cases, the benefit begins only after the waiting period is satisfied. The common waiting period is 30 days.

2. Should I buy credit insurance?

   Before purchasing credit insurance, you should consider the following:

   - Do I have other insurance or other assets, such as savings, that would cover my debts in the event of my death, disability or unemployment?
   - How much is the premium for credit insurance? Would it be less expensive and better suit my needs to buy a life insurance policy or a disability insurance policy? Credit insurance may cost more than a traditional life insurance policy or a disability policy.
   - If I purchase single premium coverage, will the premium be financed as part of the loan? If so, how much will my loan payment increase due to the cost of the credit insurance?
   - Will the credit insurance cover the full term of the loan and the entire balance?
   - How long do I have to wait before my monthly benefit is paid if I become disabled or lose my job?
   - What conditions are not covered by the policy?
   - Can I cancel the insurance?
   - Can the insurance company or lender cancel the insurance?
   - Can the terms of the policy be changed without my consent? Can the premium rate be increased?
   - If you decide to purchase credit insurance, it is important to shop around since the cost of credit insurance may vary notably from company to company. Since you must obtain credit insurance from the institution where you obtain the loan, you must shop for credit insurance

at the same time as you shop for a loan.

3. Where can I purchase credit insurance?

   Although you can obtain credit insurance as an individual, in most cases, a group policy is sold to a lender such as a bank, finance company, credit union or a vendor such as an auto dealer or a furniture store. When you borrow from a lender that has a group policy, the lender may offer the credit insurance as an additional service. If your application for insurance is approved, you will be given a certificate of insurance, which describes your coverage and serves as proof of insurance. You should receive a certificate within 30 days after you apply for insurance.

   You must purchase credit insurance at the institution where you obtain your loan. Therefore, if you plan to purchase credit insurance, you should shop for insurance at the same time that you shop for a loan.

4. Am I eligible for credit insurance?

   Age: You will probably not be eligible for credit insurance if you are age 65 or above. Age eligibility may take two forms: your age at the beginning of the loan and/or your age as of the scheduled maturity date of the loan. An age less than 65 at the start of the loan may not be used. An age limit less than 66 at the end of the loan may not be used. In addition, some policies terminate coverage when a certain age is reached. However the termination age may not be less than 66 and must be disclosed on the application for insurance.

   Medical history: Many applications for credit insurance ask you questions about your medical history. If you have been diagnosed or treated for cancer, heart disease or another serious medical condition in the past you may not be eligible for coverage. The look back time varies but is often no more than 3, 5 or 10 years.

   Work hours requirement: Most credit disability and credit unemployment (and some credit life) policies require you to be working a certain number of hours per week. The number of hours required may not exceed 30 hours per week.

   Credit unemployment: To qualify for credit unemployment benefits, you must be eligible (with certain limited exceptions) to receive State unemployment benefits.

5. What types of loans can I obtain credit insurance for?

   Credit insurance is available on just about all types of personal loans including both closed-end and open-end loans. A closed-end loan is a loan for a specified amount and for a fixed term. Most closed-end loans in the credit setting are installment loans, which means that the loan is repayable in equal monthly payments. An open-end loan is a loan where you can increase the amount of the loan at any time and the term of the loan is not fixed. The most common example of an open-end loan is a credit card.

   Examples of loans that you can obtain credit insurance for include, among other things, loans to cover the purchase of appliances, motor vehicles and farm equipment, as well as educational, credit card, home equity and mortgage loans.

6. Can the lender require that I purchase credit insurance?

No. The lender cannot require that you purchase credit life or disability insurance as a condition for obtaining a loan. However, the lender can require you to have, or to purchase, other insurance, such as a traditional life or disability policy, which would cover the amount of the loan.

7. How do I pay for credit insurance?

   There are two primary ways to pay for credit insurance:

   Single Premium: The premium is generally added to your loan amount and included in the amount financed. This increases the amount borrowed as well as the amount of interest you will pay. Single premium insurance is only available for closed-end loans.

   Monthly Premium: For open-end loans, your monthly premium is calculated by multiplying the outstanding balance in your account on the account's monthly billing date by the premium rate or by multiplying the average of the daily loan balances during the previous month by the premium rate. For closed-end loans, your monthly premium is calculated by multiplying the outstanding balance in your account on the account's monthly billing date by the premium rate.

8. Will credit insurance cover the full term and amount of my loan?

   Some credit insurance policies will not cover the full term and amount of your loan.

   Under New York State Law, the maximum allowable amount of coverage for credit life insurance is generally $220,000 for a mortgage loan and $55,000 for all other debts. For credit disability insurance, the maximum amount is generally $75,000 for a mortgage loan and $30,000 for all other debts. For credit unemployment insurance, the maximum amount is generally $110,000 for a mortgage loan and $55,000 for all other debts. The term of a credit policy generally may not extend for more than 35 years after the debt is incurred.

   However, some credit insurance policies are offered for amounts and terms much less than the maximum allowable amounts.

9. What if I want to cancel my coverage?

   Many credit policies offer a free look provision which gives you time (usually 30 days) after the insurance becomes effective to cancel your insurance and get your premium back. However, an insurance company is not required to offer a free look provision for credit products. In addition, most credit policies allow you to cancel your insurance after the end of any free look period. If you cancel your single premium coverage, you will be due a refund of a portion of the premium. This refund will often be credited to your loan balance.

10. Can the insurance company or lender cancel my coverage?

    If you pay your insurance premiums monthly, the insurance company or lender may cancel your coverage but generally must give you 31 days advance notice. If you have single premium insurance, the insurance company or lender may not cancel your coverage.

The major points of those questions should form the basis of any disclosure. Question #2 is particularly relevant. I would add that as a consumer, I want to be able to replicate the calculation of the cost of coverage as a check on the institution's calculation. Whether I could have replicated the cost in a few minutes in the middle of a lengthy survey (as was attempted in the study) or not, I would want to be able to work the calculation at my leisure and understand it.

Let's now try to score at least one of the proposed disclosures against these questions. For this purpose, let's use proposed Form H-17(B) from the Federal Reserve website (attached at the end of this comment letter). Most of the discussion will apply to the other proposed disclosures.

The table format is an interesting approach, reflective of a "Frequently Asked Questions". Unfortunately, what should be the first question "*Can the lender require that I purchase this insurance*" is a grammatically incorrect separate sentence near the top of the disclosure. The more correct word in the current format is "*Caution*" instead of "*Stop*". Inclusion of this question, properly worded, in the table format would be preferable.

Reading the disclosure from top to bottom as people normally do, the first question listed "*Do I need this product*" is out of order. All I have read so far is the title "Option to Purchase Credit Life Insurance". I might not even know what the coverage is from a mere title. The proper next question is "*What is Credit Life Insurance?*" with an appropriate answer.

The second question listed is "*How much does it cost?*" The answer is completely unacceptable. It implies the premium is discretionary. A proper disclosure would be to show the amount per thousand per month, and then a table of loan amounts and calculated premiums. Let's say the rate is 0.60 per thousand per month. The answer would read as follows (Last line would be the maximum amount of coverage available, which may vary by state):

> The rate you will pay is $0.60 per thousand per month. The cost depends on your loan balance. See the table below for some sample loan balances and premiums.

Loan Balance	Premium per month
$ 1,000	$ 0.60
$ 5,000	$ 3.00
$ 10,000	$ 6.00
$ 25,000	$15.00
$ 50,000	$30.00
$150,000	$90.00

The third question listed is "*What is the maximum benefit amount?*" The answer is not accurate. The maximum benefit amount is the minimum of the actual remaining loan balance or $150,000, whichever is less. Imprecise reading could lead someone to the conclusion that they are buying $150,000 of coverage in all cases. Because the existing proposed disclosure did not explain what credit life insurance is earlier, the consumer has no other frame of reference.

The fourth question listed is "*Can I receive benefits?*" The answer is completely unacceptable. Of all the problems of the disclosure, this is the worst one. The consumer is "receiving benefits" every month the coverage is inforce, as the insurer stands ready to pay the covered loss if it occurs. This is how insurance works. The consumer hopes the loss against which the coverage was purchased does not occur. In this case, the consumer hopes they don't die to have the loan paid off. As mentioned previously, since the disclosure never defined the coverage it is difficult to say anything intelligible about it further down the page. The answer needs to be rewritten in a neutral form, clearly explaining when the coverage will or will not pay benefits.

The fifth question listed is "*How long does the coverage last?*" The answer is fine. The text next to the check box should be adjusted to read "*Yes, I want to buy optional credit life insurance.*"

The missing questions:

1. *Can I cancel?* - Very important to tell the consumer they can cancel this product at any time. However, they will receive a refund only if canceled within 30 days of loan closing.
2. *Can the lender or insurance company cancel?* - Here it would be mentioned whether and under what conditions the coverage may be canceled by the insurer or lender.
3. *Can the insurance company deny a claim?* - Here it would be mentioned whether there are any exclusions (suicide, act of war, non-payment of premium, etc) or other limitations that might cause what appears to be a covered claim to not be covered. Here it should be mentioned that coverage must be inforce at the date of death for a claim to be paid.

I skipped over the question "*Do I need this product?*" If included on the disclosure at all, this is the proper last question rather than the first one. This is really up to the consumer as to whether they need credit life insurance. There is a strong argument that this question does not belong on the disclosure at all, because it represents a value judgment rather than a factual description of the coverage. If the purpose of the disclosure is a factual description so that the consumer can make an informed decision, then this question has no reason to be included.

Let's say that we are trying to make the question factual, given all the other previous questions that have already been answered on the disclosure. Here is an attempt: "*Do I need this product?* You may want to consider whether you have enough assets or insurance to support any survivors and repay this loan if you die. If you die, the outstanding loan balance becomes a debt obligation of your estate and any survivors."

I would urge the Federal Reserve to carefully consider redesigning the proposed disclosures to be more complete, accurate, and factual. Good public policy is served by creating and improving disclosures in a way to provide every opportunity for consumers to make informed decisions. Consumers are best served by the best public policy, whether this means more or less credit insurance is purchased or maintained inforce.

Credit insurance is one of the few remaining insurance coverages available to underinsured lower and lower-middle income consumers, especially at smaller face amounts. Don't try to take insurance products away from people trying to protect their households against losses by incorporating value judgments on disclosures.

The motto of the first US credit insurance company, The Morris Plan Insurance Society (created in 1917), is just as true today (if slightly dated), "**No man's debt should live after him**."

The opinions expressed in this comment letter are strictly my own.

Sincerely,

John Blocher

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<u>H-17(B) Optional Credit Life Insurance Sample</u>

OPTIONAL COSTS

Option to Purchase Credit Life Insurance

STOP. You do **<u>not</u>** have to buy Credit Life Insurance to get this loan. Go to www.frb.gov/creditprotectionproducts to learn more about this product.

Do I need this product?	If you already have enough insurance or savings to pay off this loan if you die, you may not need this product. Other types of insurance can give you similar benefits and are often less expensive.
How much does it cost?	This product will cost up to **<u>$118 per month</u>**. The cost depends on your loan balance.
What is the maximum benefit amount?	This product only covers the first $150,000 of the outstanding balance on your loan. You will be responsible for any balance due above $150,000.
Can I receive benefits?	**<u>You may not receive any benefits even if you buy this product.</u>** You meet the age eligibility requirements, but there are other requirements that you must meet. If you do not meet these requirements, you will not receive any benefits even if you buy this product and pay the monthly premium.
How long does the coverage last?	This product provides coverage for the first 10 years of your loan or until you reach age 70, whichever comes first.

☐ Yes, I want to purchase optional Credit Life Insurance at a cost of up to $118 per month.

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Signature