From: Georgia Heritage Federal Credit Union, Elizabeth D Purdee

Subject: Regulation Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending
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Comments:
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 Rule - Revisions to Reg Z - Credit Protection Products Docket No. R-1390 Dear Ms. Johnson: I am writing on behalf of Georgia Heritage Federal Credit Union to oppose the changes to the credit insurance and debt protection rules. I believe that the disclosures are misleading and will hurt not only the credit union, but our borrowers as well. Our credit union has been offering credit protection for many years and our borrowers have found it to be a very beneficial product. It provides a valuable monetary benefit, as well as peace of mind knowing that the debt will be taken care of if they die, or become disabled. It also helps protect the borrowers' credit rating, which is invaluable when it comes to managing their finances. It is also a very beneficial product for us as well. Having credit protection on our loans provides us extra assurance that the loan will be paid on time. This decreases our charge-offs and loan losses. The product also provides us with a valuable source of non-interest income. All of this plays a vital role in the safety & soundness of our institution. When credit protection is offered to our borrowers, it is done so in a responsible manner, designed to follow the law and fully inform our borrowers about the product. Disclosures are provided to the borrower. There is no objection to providing new or revised disclosures, as long as such disclosures are reasonable and accurate. I believe the proposed changes to these disclosures are misleading to the consumer. The tone of the disclosures are unduly negative and alarmist. Some of the disclosures of most concern are: 1. "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 is inconsistent with the advice given by financial planning experts that most American families need more, not less, life insurance. Purchase of credit protection products provides valuable coverage even to consumers who already have their own insurance, because they will not have to deplete their

other coverage in order to pay off their debts. For example, our borrower may have a $100,000 term life policy. But purchasing credit insurance on her $30,000 auto loan provides $30,000 in additional benefits, and ensures that the vehicle loan is paid off and that our lien on the vehicle is extinguished. In such a scenario, our borrower's beneficiary will net $100,000 in life insurance proceeds AND a fully paid-for vehicle with no lien on it. Without credit insurance, our borrower's family would have to continue making payments on the vehicle (or risk repossession). This nets our borrower's family only $70,000 of life insurance, and continues the burden of making monthly payments on the loan. 2. "Other types of insurance can give you similar benefits and are often less expensive." This statement implies, for example, that term life insurance products are similar to credit life insurance products. But they are not similar. While both types of policies provide benefits upon the insured's death, the comparison stops there. For example, our credit life insurance policies have one health question. The only other eligibility requirement at time of application is that the consumer must be under a certain age (typically 66 or 70 depending on the state). The consumer checks one box and completes a very brief application. For a low monthly cost, the consumer easily and conveniently obtains just enough life insurance to cover the loan, even if he or she has some health issues and regardless of the consumer's occupation, smoking status, or recreational interests. On the other hand, to purchase term life insurance, the consumer typically must apply for a minimum of $100,000 of life insurance. The application is lengthy. It can be several pages long with over two dozen questions regarding the consumer's health and family history, covering a broad array of health concerns and diseases, including smoking, prescription drugs, cancer, diabetes, seizures, and depression. There are also questions about the applicant's finances, occupation, and recreational interests. Detailed responses are required of all answers, and the consumer's medical records are obtained and reviewed by the insurer. In some cases, blood and urine samples are collected and analyzed. Even if the applicant qualifies for coverage, the cost depends on the term of the policy, the insured's age, health, smoking status, and the amount of the policy benefit. After all of this, the out-of-pocket cost of the term life policy may not be less than the monthly cost of credit life insurance. 3. "You may not receive any benefits even if you buy this product". This statement is apparently an attempt to tell the conumer that there are eligibility requirements, conditions and exclusions that could prevent the consumer from receiving benefits under the policy. This is not, however, what the language conveys. The language could lead consumers to mistakenly conclude that, if a cash benefit is not paid, then buying the product was a waste of money. This is absurd, however, since consumers buy insurance policies all the time while hoping that the covered event never occurs. Just because the borrower did not die during the term of the loan does not mean that purchasing credit life insurance or debt cancellation was a bad purchase. I believe that there is an effective alternative to this language: "There are eligibility requirements, conditions, and exclusions that could prevent you from receiving benefits under this product. You should carefully read our additional information and/or the contract for a full explanation." It is objective and factual and tells the consumer where to find further explanation, with no underlying tone of bias or negativity. CONCLUSION I believe the additional disclosures will hurt the credit union and our borrowers. They are misleading and do not further the purpose of TILA. These disclosures will scare consumers away from buying a product that could have great benefit to them, and it will hurt the safety & soundness of our institution. I also believe that including the credit protection premiums and fees in the APR will hurt consumers. Most do not understand the effective APR, and forcing creditors to include fees in the APR will cause the consumer to be comparing apples to oranges when shopping for credit. This defeats the purpose of TILA. I ask the Board to withdraw the credit protection proposal or, alternatively, to reconsider more balanced, objective disclosures.

Sincerely,

Liz Purdee,
Georgia Heritage Federal Credit Union