NILA
National Installment Lenders Association

December 22, 2010

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20511

Re: Docket No. R-1390

Dear Sir or Madam:

The National Installment Lenders Association ("NILA") is grateful for the opportunity to comment on the Federal Reserve Board's ("Board") proposed rule amending Regulation Z with respect to credit protection products ("Proposed Rule"). NILA[1] is the national trade association for the installment loan industry. NILA's members include the leading installment loan companies in America. The installment loan industry serves over 40 million consumers per year with affordable and responsible installment credit products.

NILA members strongly support appropriate and beneficial consumer protection measures and, while NILA acknowledges the Board's belief that some changes might be needed in the residential mortgage loan process,[2] NILA does not believe changes are needed to the credit protection product disclosures that are currently required in connection with closed-end non-real estate secured installment credit transactions. Further, some of the changes proposed will be difficult, if not impossible, to implement. The current credit protection product disclosures are accurate and they provide clear and meaningful explanations to consumers about the voluntary nature, costs, and eligibility requirements of the products.

As an initial matter, NILA believes it is inappropriate and unfair to non-mortgage lenders to mandate a complete overhaul of credit protection product disclosures for all types of credit by burying substantial revisions to these regulations within a several hundred page rule that is, by the Board's description, devoted to home-secured credit.[3] For example,

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1 NILA acknowledges, and expresses appreciation for, the assistance of Robert Cook and Meghan Musselman of the Hudson Cook law firm for their assistance in the preparation of this comment letter.

2 NILA defers to the residential mortgage lending community to address whether or not the Board's belief is well founded.

3 Arguably, the Board's approach raises concerns under the Administrative Procedure Act as to whether the proposal provides sufficient notice to affected parties.

the introductory summary accompanying the Federal Register publication of the Proposed Rule talks only about mortgage loans. Indeed, the Board's primary focus in developing the Proposed Rule was to address issues in the mortgage lending industry. Yet, the proposal amends all credit protection product disclosures, including those affecting non-mortgage borrowers or their lenders. NILA respectfully requests that the Board refrain from issuing any final rule that will result in changes outside of the mortgage lending area. The remainder of this comment outlines NILA's grave concerns with the substance of the Proposed Rule, followed by examples of the most egregious aspects of the proposed disclosures.

I. The Board is Acting Outside the Scope of Its Authority

NILA does not believe the Board has authority under the Truth in Lending Act ("TILA") to issue this proposal. Section 105 of TILA directs the Board to carry out the purposes of the Act through regulations. Section 106(b) of TILA expresses the purpose of TILA with regard to disclosures related to credit protection products. Section 106(b) does not contemplate these extensive disclosures and it certainly does not authorize the Board passing judgment on the value of these products. The proposal therefore exceeds the authority granted by TILA with respect to credit protection product disclosures.

II. The Disclosures Are Unfairly Biased

NILA members believe that the language of the proposed disclosures, even were it authorized by TILA, is blatantly slanted and biased against credit protection products. In some respects, the disclosures are even misleading. The disclosures attempt to dissuade consumers from obtaining credit protection products, products that are expressly permitted under state law. TILA charges the Board with implementing a federal disclosure statute with the goal of helping consumers fully understand their credit products through the disclosure of objective information. TILA does not authorize the adoption of disclosures that pass judgment on the value of legitimate consumer products that are heavily regulated and audited by state regulators. The attempt to sway consumers by issuing these proposed disclosures is improper in itself, but worse, the language of the disclosures, even if permitted, is misleading and deceptive.

III. Additional Disclosures Are Unnecessary and Counterproductive

The Proposed Rule also is a step in the wrong direction towards more voluminous consumer disclosures rather than shorter, more meaningful and more useful consumer disclosures. Consumers can always benefit from better clarity in disclosures. However, increasing the volume of disclosures that a consumer is expected to review at loan closings is counterproductive and weakens the effectiveness of each individual disclosure. Adding another piece of paper to that pile of documents will only make consumers feel more overwhelmed and less likely to read and understand any of the individual disclosures.

IV. The Board's Consumer Testing Was Insufficient

NILA members are concerned with the sufficiency and the validity of the consumer testing that underlies the Board's proposal. NILA members take issue with the number of consumers tested as well as the context in which consumers were presented with the proposed disclosures. The Board tested the credit protection product disclosures on a mere ten consumers in the first round, and only eight consumers in the second round. Eighteen consumers is an entirely insufficient number from which to draw representative conclusions about the effectiveness of disclosures, particularly when the final version of the disclosures in the Proposed Rule was never presented to even these meager test panels.

Further, the Board conducted all of the consumer testing in the mortgage lending context, an area that is vastly different from installment lending. The Board failed to acknowledge that non-mortgage lending presents different challenges and concerns for consumers. NILA members believe that testing credit protection product disclosures in the installment lending context would produce different results. It has been the experience of NILA members, based on serving millions of customers, that consumers understand credit protection products under the current disclosure regime. For this reason, along with all of the other reasons stated herein, NILA members again respectfully request that the Board refrain from issuing any final rule that will result in changes outside of the mortgage lending area.

V. The Proposal Is Duplicative of and Conflicts With State Disclosure Requirements

The proposed disclosures will in many cases be duplicative of or in conflict with state credit insurance disclosures. For example, the state of Georgia requires a one-page stand-alone credit insurance disclosure statement. Georgia also allows creditors to require the purchase of certain credit protection products in connection with certain consumer installment loans. The proposed federal disclosure conflicts with the Georgia disclosure in several important respects that could cause confusion for borrowers. For example, the Georgia disclosure explains the cost of credit protection products to consumers on a unit-cost basis, while the proposed disclosures would explain the cost of credit protection products as a statement of the maximum charge per period.

Georgia and most other states require disclosures similar to the current Regulation Z credit insurance/debt cancellation disclosures such that compliance with Regulation Z constitutes compliance with state law and only one set of disclosures is required. If the Proposed Rule is adopted, creditors may have to give both the state required disclosures and the new federal disclosures. Such duplicative disclosures will not be helpful to consumers but will be a significant source of consumer confusion. There also will be situations in which state and federal law may require duplicative customer authorizations, which would engender further confusion. Such repetitive disclosures and authorization forms would also defeat the general and worthy goal of reducing disclosure overload. The Board's mission should be to focus only on non-repetitive disclosures that provide meaningful information to customers, as discussed below.

VI. Specific Concerns

These general concerns alone counsel withdrawal of the proposed credit protection product disclosures. A brief look at the content of the disclosures only confirms this conclusion:

STOP Header: The use of "STOP" at the outset of the notice is totally inappropriate. This is a blatant attempt to unduly alarm consumers and to try to convey that credit protection products are in some way harmful to consumers. This emphatically negative language is not justified and exhibits an inherent bias against credit protection products.

Do I Need This Product? The content of this portion of the disclosure presupposes that the answer to the question "Do I need this product?" is NO. Once again, the Proposed Rule uses clearly biased and slanted language in an apparent attempt to dissuade consumers from obtaining these legitimate products. It is improper and outside of the Board's authority to pass judgment on credit protection products that are authorized by state law.

Studies show that American families are under-insured and need more insurance, not less.[4] In the current economic climate, where employment is down and many households are unable to absorb a financial emergency, any attempt to discourage consumers from obtaining additional insurance seems ill-advised.

Further, the statement that other types of insurance can provide similar benefits at lower cost is not always true. Involuntary unemployment insurance, for example, is rarely available outside of the credit context. Even where this type of product is available independently of a credit transaction, a consumer may not qualify. Credit protection products are designed to reach consumers who may not otherwise qualify for stand-alone insurance products. Also, if consumers are unable to pay cash for their insurance premiums, and have to look to insurance premium financing to acquire separate insurance, these arrangements are often significantly more expensive than financing an insurance premium with a creditor as part of a credit transaction. Credit protection products offer important and much needed protection to consumers who may not otherwise qualify for or be able to afford insurance or similar products outside of a credit transaction. To imply otherwise is misleading and attempts to discourage these products, which could deprive consumers of an opportunity to protect themselves from financial catastrophe.

Can I receive benefits? This language is not only extremely biased, but also misleading and unfair. Credit protection products are no different than other types of insurance, such as life insurance, homeowners' insurance or auto insurance. The consumer may never receive any monetary benefits for the premiums paid unless the covered event happens. However, the benefit of insurance is the protection and peace of mind it offers, even if it

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[4] LIMRA International recently reported that 50% of American households felt they needed more life insurance. Trends in Life Insurance Ownership, August 27, 2010, LIMRA International, Windsor, CT, reported in USA Today, http://www.usatoday.com/money/perfi/insurance/2010-12-03-1Alifeinsurance03_ST_N.htm?POE=click-refer.

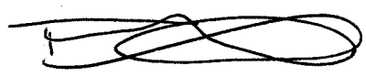
is never needed. Certainly the Board would not discourage consumers from obtaining life insurance, homeowners' insurance or auto insurance because consumers may never "receive the benefits" offered by the coverage.

The Board appears to believe that a high number of valid credit protection product claims are unpaid. This perception is not supported by the overwhelming experience of NILA members. Even if the Board's unfounded belief were true, these proposed disclosures are not a proper vehicle for addressing that problem. These products are highly regulated at the state level and have been recognized as legitimate and valuable products for decades. Now, with limited data, the Board proposes to overrule this well established state regulatory regime.

Required Disclosures May Prove Impossible to Comply With. The Proposed Rule is unworkable when a creditor offers a full range of credit protection products. Some states require the cost of each product to be set forth separately and require creditors to offer each product separately, so that the consumer can choose which coverage best fits his or her needs without purchasing additional coverage that they deem unnecessary. The Proposed Rule would appear to require creditors to disclose a monthly cost of the insurance based on the amount of credit made available. However, if a creditor has to provide separate disclosures for each different type of coverage, the creditor will not be able to calculate an accurate monthly cost for the individual coverages because the consumer's selection of coverages could change the monthly cost for any individual coverage. For example, the monthly premium for credit accident and health insurance is based on the total monthly payment the consumer must pay. This amount cannot be determined and disclosed on a form that only contemplates the sale of credit accident and health insurance because the purchase of any other coverage would change the monthly payment that must be covered by this insurance and thus the premium that must be paid. The Board should not issue a rule with which creditors cannot comply.

As stated above, NILA appreciates the opportunity to comment on the Proposed Rule. Please feel free to contact me[5] with any questions.

Respectfully submitted,



Francis C. Lee

[5] 601-992-0153.