TENNESSEE BANKERS ASSOCIATION Service Since 1890™

December 22, 2010

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Docket No. R-1390
Proposed Rule Amending Regulation Z: *Rules Regarding Home-Secured Credit* (75 F.R. 58539)

Dear Ms. Johnson:

The Tennessee Bankers Association, on behalf of our 235 member financial institutions in Tennessee, appreciates this opportunity to comment on the Federal Reserve Board's proposed rule (Rule) to amend Regulation Z and the Truth in Lending Act (TILA) to enhance consumer protections and disclosures for home mortgage transactions. This proposal is part of a comprehensive review of the mortgage lending portions of Regulation Z and includes significant changes to TILA.

The Rule is very broad in scope and covers a number of regulatory matters under Regulation Z, including revisions to the right of rescission, clarifications regarding disclosures in instances of loan modifications, amendments to rules to determine triggers for "higher priced" mortgage loans, clarifications to the duty to refund fees with regard to early disclosures, modifications to requirements pursuant to requests submitted to loan servicers, and other provisions to guard against unfair acts and practices with regard to reverse mortgages.

While we strongly support enhancement of consumer protections and disclosures for home mortgage transactions, we have serious concerns about the Rule's proposals to impose new requirements and disclosures for credit protection products, including short-term credit insurance and mortgage protection insurance, debt cancellation contracts and debt suspension agreements.

We believe these proposals will be problematic for consumers as the disclosures are unduly long, burdensome, and misleading. Further, they will likely push consumers away from credit protection products that could be very valuable to them. For example, the Board proposes this disclosure: "If you already have enough insurance or savings to pay off this loan if you die, you may not need this product." This statement, which is effectively a warning to consumers that purchasing the product may be unwise, is inconsistent with the advice given by financial planning experts – most American families need more, not less, life insurance.

Another example of a proposed misleading disclosure is, "You may not receive any benefits even if you buy this product." This is seemingly an attempt to inform consumers that there are eligibility requirements and conditions that could prevent them from receiving benefits. This statement, however, does not effectively convey that. The language will lead consumers to mistakenly conclude that if a cash benefit is never paid, the purchase of the product is a waste of money; but, consumers purchase insurance policies all the time with the hope the covered event never occurs. Although we support requiring the disclosure of eligibility requirements and conditions, we are very concerned the alarmist tone of the proposed disclosure language could lead to unintended negative consequences. We respectfully request the Board to consider adopting more factual, objective disclosure language to inform consumers where to find further explanation.

We also believe these proposals will have a significant negative impact on financial institutions. The proposals will significantly increase the number of disclosures that must be given in order to exclude credit protection product premiums and fees from the APR for open-end consumer and mortgage loan accounts and closed-end consumer loans. Additionally, financial institutions would be required to check age, health, and other eligibility before selling a credit protection product. The proposals also would require premiums and fees to be included in the APR for closed-end mortgage loans even though the new disclosures must be given and eligibility must be checked.

The proposed disclosures will increase financial institutions cost to administer the credit protection programs and will decrease sales. This will negatively impact financial non-interest income and ability to collect on loans at a time when financial institutions can afford it the least. Profitability, and therefore safety and soundness, will suffer.

We appreciate the opportunity to comment on this proposal.

Sincerely,

Timothy L. Amos
Senior Vice President and General Counsel