World Acceptance Corporation
P. O. Box 6429 - Greenville, South Carolina - 29606 - (864) 298-9800

December 22, 2010

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 Secretary Johnson:

I am writing on behalf of World Acceptance Corporation and its consumer installment loan operating subsidiaries in opposition to the changes to the credit insurance and debt protection disclosures in R-1390. We believe the disclosures are misleading and will negatively impact our organization and, most importantly, the financial well-being of our borrowers.

World Acceptance Corporation, founded in 1962, is one of the larger small-loan consumer finance companies in the United States and Mexico. Through its locally incorporated, licensed and regulated operating subsidiaries, World offers short-term small loans, medium-term larger loans, related credit insurance products, ancillary products and services to individuals who have limited access to other sources of consumer credit. As of September 30, 2010, World operated 1,034 offices in South Carolina, Georgia, Texas, Oklahoma, Louisiana, Tennessee, Missouri, Illinois, New Mexico, Kentucky, Alabama and Mexico.

World emphasizes quality customer service and the building of strong personal relationships with its customers. As a result, a substantial portion of the Company's business is repeat business. During fiscal 2010, the Company loaned $2.3 billion in the aggregate in 2.1 million transactions. At March 31, 2010, World had approximately 792,757 customers. Each of those borrowers is a unique person with individual needs and desires.

World has been offering a variety of credit protection insurance products[1] to its borrowers since its inception. Feedback from our borrowers tells us that our borrowers[2] have found these products and services to be very beneficial. Credit insurance programs are designed to provide

[1] In addition to credit life insurance, World offers credit accident and health, credit disability, credit involuntary unemployment and selected other products and services to its borrowers in those states where the products and services are permitted.

[2] With rare exception, the products are optional so, of course, not all borrowers elect to purchase the products or services. Each borrower is uniquely placed to determine which, if any, of the products or services are right for him or her.

financial protection for our loan customers should the unexpected occur – loss of life, sickness or injury, involuntary unemployment, or other unforeseen events. The insurance products that we offer either make monthly payments or pay off the loan in full depending on the precise nature of the coverage selected. In either event, these insurance products keep our customers current with their loan payments, reduce borrower delinquencies, and ensure that our borrowers have one less thing to worry about during a time typically fraught with emotional and economic stress.

The economic security of American households has eroded in the last decade. Many households have experienced a growing gap between their incomes and their day-to-day costs of living, resulting in decreased savings, rising levels of debt, and widespread economic instability. Since the year 2000, many households have attempted to cope with this financial imbalance by relying on credit cards to cover basic expenses not met by their earnings. Cashed-out home equity - $1.2 trillion over the last six years – was all too often used to pay down those debts and to cover other costs of living, creating a situation of financial fragility for many consumers.[3] World offers its customers a viable alternative to those dangerous financial solutions. World's installment credit provides a built-in pathway out of debt through affordable monthly payments and a fixed, certain and easily understood financial contract.

The current economic climate, coupled with the decline of the traditional insurance agent distribution system[4], has resulted in ownership of individual life insurance falling to a recent 50 year low. Today, 30 percent of households (35 million) have no life insurance coverage compared to 22 percent of households in 2004. In addition, only 31 percent of U.S. workers are protected by long term disability insurance.[5] Most consumers rely on their employers for coverage, but in a recent study, when asked what percentage of their salary they would receive if they were to become disabled, nearly 4 in 10 workers (39 percent) did not know. One in 5 (22 percent) appeared to overestimate their coverage, thinking they would receive anywhere from 70 to 100 percent of their current salary, when, with few exceptions, disability insurance policies replace no more than two-thirds of a worker's pre-disability salary.[6] Involuntary unemployment or job loss protection is not typically available at all from an insurance agent or employer. State unemployment insurance programs often do not provide adequate benefits for most consumers to maintain their standard of living and these public benefit programs have many other limitations as well.

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3 Garcia, Jose. (2007, November). Borrowing to make ends meet – the rapid growth of credit card debt in America.
4 Society of Actuaries. (2005, August). A strategic analysis of the life insurance industry.
5 Bureau of Labor Statistics. (2009, March). National compensation survey.
6 LIFE Foundation. (2010).

The Board's proposed disclosures appear to be intended to inhibit a consumer's ability to supplement existing insurance coverage, if it exists at all, through the convenient, personal distribution network provided by financial institutions such as World. At a time when the need for protection is greater than ever, this approach seems in direct conflict with our customers' best interests.

When we offer credit insurance products to our borrowers, we do so in a responsible manner, designed to follow the law and fully inform our borrowers about the product. We have always provided disclosures to them, and we do not necessarily object to providing new or revised disclosures, as long as such disclosures are reasonable and accurate.

However, we believe the proposed disclosures are both inaccurate and misleading. The tone of the proposed disclosures are both unduly negative and alarmist. The proposed "disclosures" clearly cross the line from being informational disclosures designed to assist consumers in making fully informed voluntary choices to expressions of bias and prejudice against these beneficial products.

The disclosures proposed to date relate only to credit life insurance and do not address disability or job loss protections. There are a myriad of other products and services that borrowers find to be beneficial that are not addressed in the proposal.

As it relates to the disclosures you have proposed for credit life insurance, our concerns are outlined as follows:

1. **"If you already have enough insurance or savings to pay off this loan if you die, you may not need this product."**

This statement seems to imply that most consumers are adequately insured such that credit life insurance would be superfluous. Nothing could be further from the truth. The current economic climate, coupled with the decline of the traditional insurance agent distribution system[7], has resulted in ownership of individual life insurance falling to a recent 50 year low. In a recent survey, 50 percent of U.S. households felt they needed more life insurance. Only 44 percent of U.S. households have individual life insurance. Today, 30 percent of households (35 million) have no life insurance coverage, compared to 22 percent of households in 2004. One in 4 U.S.

[7] Society of Actuaries. (2005, August). A strategic analysis of the life insurance industry.

households relies only on employer-provided group life insurance for financial protection if a wage-earner dies. These households may lose their only life insurance coverage if they become unemployed or have their work hours reduced. In the past year, someone lost their job in 15 percent of U.S. households.[8]

Credit insurance provides valuable coverage – even to our customers who may already have other insurance – because they will not have to deplete their existing coverage, if it exists, to pay off their debts if a protected event occurs. Credit insurance helps protect the loan from becoming delinquent or charged off and it enhances and strengthens our relationship with our customers.

During difficult emotional and economic times for our customers, it is wonderful for us to be in a position to inform them that the benefits of their credit insurance program have canceled their debt or were taking care of their monthly payments, allowing them to focus on their family and get back on their feet. We would much prefer that type of communication with our customers than being in the unenviable position of adding to their difficulties by placing their loans in delinquency, or worse yet, in collection.

2. "Other types of insurance can give you similar benefits and are often less expensive."

This statement seems to imply that term life or other insurance products are similar to credit life insurance and provide a better value in most cases. While both provide benefits upon the insured's death, the similarity ends there.

Credit life insurance policies typically require only one simple health statement, or just a few health questions. They may also have an eligibility requirement at the time of application that the consumer be under a certain age (typically 66 or 70 depending on the state), which is generally mandated by state insurance law. The consumer will often check a box or two and complete a very brief application at loan closing. The cost for credit life insurance is regulated by state law and the cost is based only on the loan amount and term. A consumer taking a $10,000 loan would pay about $6.00 per month for credit life insurance. For a low monthly cost, the consumer easily and conveniently obtains just enough life protection to cover the loan, often 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 $50,000 or $100,000 in coverage. The application is lengthy, often with dozens of

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8 LIMRA. (2010). Trends in life ownership study.

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, high blood pressure, cholesterol, alcohol use and depression. There are also questions about the applicant's finances, occupation, and recreational interests. Detailed responses are required with all of the 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. 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. At the end of this lengthy process, the cost of the term life policy may not be less than the monthly cost of credit life insurance. For consumers who are older or not in excellent health, term life insurance can cost significantly more each month than credit life insurance.

In addition, alternative coverage at any price may not be available to many consumers, which makes the proposed disclosure misleading and potentially detrimental to consumers. According to a recent LIMRA study, almost 8 in 10 American households currently do not have a personal life insurance agent or broker to turn to and most of them say they never did.[9] If this disclosure is adopted, many consumers will forego the opportunity to purchase credit life insurance, only to learn later that the alternative coverage referred to in the government mandated disclosure is either unavailable to them or is available in much larger amounts, and at a higher monthly cost.

3. "You may not receive any benefits even if you buy this product."

This statement appears to be an attempt to inform the consumer there are eligibility requirements, conditions and exclusions that could prevent the borrower from receiving benefits under the policy. While that is an important consideration for borrowers considering these products, the language appears designed to mislead the consumers into wrongly concluding that the provider of the program could simply choose not to provide benefits for whatever reason, which is not the case; or, if a benefit is not provided per the terms of the contract, then purchasing the protection was a mistake. Consumers routinely purchase insurance hoping the protected event never occurs. If a consumer buys insurance to protect his or her home against fire, the fact that the house does not burn down does not mean the coverage had no value. Similarly, consumers who purchase credit life insurance to provide benefits in the event of death are unlikely to believe the coverage had no value should they remain living.

[9] LIMRA. (2010). Trends in life insurance ownership study.

OTHER OBJECTIONS TO THE PROPOSED RULES

Besides the content of the disclosures, we have other objections to the proposal generally.

Faulty consumer testing of the disclosures. The Board has based the new disclosures on consumer testing by ICF Macro. However, the disclosures were tested by only ten consumers in the first round of testing, and a staggeringly small population of just eight consumers in the second round of testing. The size of the test group hardly seems like a representative sample large enough to form any valid conclusions, especially considering these disclosures will be provided to millions of consumers each year. The Board's prepared disclosure was not the disclosure the industry has used in the market and that has been tested and surveyed since 1968. The survey conducted by the Board was of credit life insurance disclosures only.[10] There is no record in the ICF Macro study that any other credit insurance disclosures for other products were tested. The reference to "credit protection products" is deceptive since the study dealt only with the credit life insurance disclosure developed by the Board.

Eligibility verification. Under the proposed new rules, the Board requires the creditor to determine at the time of enrollment that the consumer meets any applicable age or employment eligibility criteria and suggests that the creditor may use "reasonably reliable evidence" to satisfy this requirement. This vague language leaves the creditor without any clear guidance as to what constitutes satisfactory compliance. Such vague regulatory language is a trap for the unwary and a goldmine for greedy class action lawyers. Moreover, it provides no protection for consumers.

The Board is overreaching. The proposed disclosures go beyond the purpose and language of the Truth-in-Lending Act. This is also true for the proposed rule that would include premiums and fees in the APR on mortgage loans. The language of TILA allows premiums and fees to be excluded from the APR if the cost is disclosed, the consumer affirmatively elects coverage, and if "coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit".

The Board must prescribe regulations to "carry out the purpose" of the Act and those regulations must be within the scope of authority granted to the Board by the Act. We question how the proposed regulations could carry out the purpose of the Act when the Act itself specifically allows exclusion of credit insurance from the cost of credit. The Board's proposed rule that the

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[10] Pg 22 of the ICF Macro, Design & Testing of Periodic Statistics for Home Equity Loans, Disclosures about Changes to Home Equity Loan Credit Limits and Disclosures About Credit Protection Products, July 2010.

cost of credit protection be included in a mortgage loan's APR directly contradicts the plain language of TILA.

The Board also states that it has authority to expand the disclosures. According to the Board, it is relying on the "voluntariness" standard cited in the statute. In other words, in order to exclude premiums and fees from the APR, the product must be "voluntary". The Board argues the product is not voluntary if, for example, the consumer enrolls in protection that he never qualified for; or if the consumer does not know there are "less expensive" alternatives; or if he does not know there are eligibility requirements at claim time. Therefore, the Board argues, it can expand the disclosure requirements to avoid these scenarios.

We suggest, however, that the Board take another look at the language of the statute. The statute does not use the word, "voluntary". It states that the coverage must not be a factor in the approval by the creditor of the extension of credit. Whether our borrower is eligible for coverage at enrollment or at claim time, or whether there are other less expensive alternatives in the marketplace, has nothing to do with whether the coverage was a factor in our loan approvals. The Board has wandered far afield of both the intent and the specific language of TILA. Whether a borrower purchases credit insurance does not factor into our credit decision. As such, we are, and should remain, able to exclude the cost of the product from the APR, and we should not be required to give additional misleading disclosures that have no statutory basis for their existence.

Including voluntary fees and premiums in the APR will hurt the ability of a consumer to comparison shop. Including the cost of credit insurance (as well as the other additional fees the Board is proposing) in the APR for closed-end mortgage loans will be harmful to consumers. The inclusion of the fees will skew the APR and will, by definition, force a consumer to compare "apples" to "oranges" when comparing different sources of credit or different loans between lenders. The consumer will have no way of knowing which products and/or fees are in one lender's APR versus those in another's. The Board's own research has repeatedly revealed that consumers already have difficulty understanding the effective APR, however, it is clear that borrowers understand the difference between bigger and smaller numbers. The Board should eliminate all optional fees and all other optional uses to which a borrower may apply loan proceeds from the APR. An "all-inclusive APR" is not an APR; it is meaningless to consumers and it is contrary to the worthy goals of TILA.

Consumers value these programs. Several studies have been conducted over the years testing consumer satisfaction with credit insurance, with favorable results. A survey of consumer attitudes reported by the Federal Reserve Board affirms historically high satisfaction among those who purchase credit insurance and concludes that credit insurance purchasers believe they would be ill-served by any move to restrict credit insurance as an option when they borrow. The Survey Research Center of the University of Michigan surveyed 1,006 consumers during September and October 2001 for the Credit Research Center of the McDonough School of Business of Georgetown University using a questionnaire designed by Thomas A. Durkin, a member of the FRB's Division of Research and Statistics.

The survey confirms findings of earlier surveys, with up to 90 percent of credit insurance purchasers responding that they are satisfied with credit insurance and would purchase it again when borrowing, and shows again that consumers receive ample notice that credit insurance is a voluntary option to insure loans when they borrow. Results and analysis of the survey are reported in an article by Mr. Durkin entitled, "Consumers and Credit Disclosures: Credit Cards and Credit Insurance"[11] that also examines a survey conducted during 2001 concerning consumer attitudes about the use of credit cards and credit disclosures under the FRB's Reg Z governing truth in lending.

Concerning credit insurance, Mr. Durkin 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."

CONCLUSION

Harvard Law Professor Christopher Tarver Robertson's study[12] on the medical causes of home mortgage foreclosures concludes with this recommendation – "One potential response is to create a public or private insurance system to prevent the problem. Such insurance could pay the mortgage during a verifiable medical crisis in the borrowers' household, allowing those with only a temporary problem to overcome it without losing their homes in the process." The same wisdom applies to non-mortgage related credit. Credit insurance programs have provided precisely this type of benefit to consumers for many years.

In study after study, consumers have expressed a high level of satisfaction with credit insurance programs. While we are certainly open to suggestions, provided that sound research supports the

[11] Durkin, Thomas A. (2002). Consumers and Credit Disclosures: Credit Cards and Credit Insurance, Federal Reserve Bulletin

[12] Robertson, C.T., Egelhof, R. & Hoke, M. (2008). Get Sick, Get Out: The Medical Causes of Home Mortgage Foreclosures. Health Matrix.

suggestions, for modifying disclosures so the features and benefits of the products and programs are as clear and understandable as possible, the proposed disclosures in their current form seem intended only to discourage, or even prevent, consumers from electing coverage. Now more than ever, many consumers are experiencing financial concerns such as increasing debt and medical costs, lower home values and savings, and job insecurity. Many consumers have no insurance at all, and even more still are underinsured. These factors, individually and in the aggregate, create an environment in which the benefits provided by credit insurance may be more vital than ever; and one in which the bias against these programs as evidenced by the proposed disclosures is truly confounding.

We respectfully ask the Board to withdraw the credit protection proposal or, alternatively, to reconsider more balanced, objective disclosures.

Yours very truly,

WORLD ACCEPTANCE CORPORATION

A. A. McLean, III
Chairman and Chief Executive Officer