Federation

Credit Unions United to Serve the Underserved

December 16th, 2010

Ms. Jennifer J. Johnson
Secretary, Board of Governors of the
Federal Reserve System
20th and C Streets NW
Washington DC 20551

Dear Ms. Johnson: Re: Docket R-1390

The National Federation of Community Development Credit Unions (the Federation) is the association for credit unions specialized in serving low-income communities in inner-cities, rural areas, and reservations. They serve the working poor, people on fixed incomes, people with disabilities, minorities, and many others with limited or no access to the formal financial system.

We are writing to express our concern over the proposed FRB disclosure language, which we believe, will create confusion and discourage low-income consumers from using credit life and disability insurance offered by credit unions, which has proven to be an affordable and effective asset-protection option in underserved communities. In low-income and other underserved communities, disproportionate numbers of individuals and families are uninsured or under-insured, sometimes because of affordability but often because health conditions render them uninsurable. We are concerned that the extremely directive language under consideration by the Federal Reserve would have the effect of exacerbating the financial vulnerability of this population. We urge the Federal Reserve to exclude credit life and disability insurance from the proposed disclosure statement.

The Federation is a strong advocate of consumers' rights and applauds the FRB efforts to increase transparency, but we believe that credit insurance already meets the disclosure standards of highly regulated states such as California and New York. Furthermore, these disclosures are also offered in Spanish.

Background

The Federation is a national, nonprofit association based in New York City that since 1974 has represented, supported and invested in credit unions across the nation with an explicit mission of serving predominantly low-income, financially underserved communities. Today, our membership numbers almost 250 community development credit unions (CDCUs) committed to providing access to quality financial services, affordable credit and development services to marginalized populations such as Native Americans, immigrants (in particular Latinos) and low-income African Americans.

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The majority of our member credit unions are low-income designated[1] by the National Credit Union Administration, the Federal regulator; and/or are certified as community development financial institutions[2] by the US Treasury Department's CDFI Fund, which recognizes the vital link these institutions represent for low-income consumers and underserved communities.

The Federation's member credit unions are, in general, the smallest in the movement, with a median asset size of just under $4 million.

Over its 36 years of existence, the Federation has focused its efforts in two fronts:

- Asset Building: promoting savings mobilization (i.e. Individual Development Accounts); Affordable Home-Ownership Programs; Micro-Small Business lending; Volunteer Income Tax Assistance (VITA); Financial Literacy; etc. and
- Asset Protection: promoting alternatives to Predatory Lending (i.e. payday loans and title loans); Foreclosure Prevention; Loan modifications, Financial Literacy; etc.

Importance of Insurance for Underserved Consumers

Insurance is one of the best asset protection tools available, yet according to insurance industry statistics, nearly a third of US households have no life-insurance and about 35 million households have no life-insurance policies nor are covered under employer-sponsored plans. These percentages are much higher in economically distressed communities where consumers are less likely to be aware of the asset protection role life and disability insurance provides. In addition, consumers in inner-city, rural and underserved communities have significantly fewer choices, and often their options are more restrictive and higher priced than those available to higher-income households.

Furthermore, low-income consumers and immigrants have limited access to health insurance. Credit life and credit disability insurance provide critical protection to preserve hard-earned assets of low-income families when they need it the most.

Even if life insurance options were widely available and reasonably priced in low-income communities, it must be recognized that not everyone may qualify or need the broader coverage offered by those products. Credit life and disability insurance are a simple, efficient and cost-effective way for consumers to protect their families from specific financial obligations, and are readily available to all persons -- at the same rate -- regardless of gender, age, weight, smoking status and occupational risk factors.

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[1] To obtain the low-income designation, credit unions must demonstrate that the majority of its membership (50.01%) qualifies as low-income as defined in Section 701.34 of the NCUA Rules and Regulations: low-income members are those members who earn 80% or less than the median family income for the metropolitan area where they live or the national metropolitan area, whichever is greater. For members living outside a metropolitan area, low-income members are those members who earn 80% or less than the median family income for the statewide or national, non-metropolitan area median family income, whichever is greater

[2] A certified Community Development Financial Institution (CDFI) is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. To obtain the CDFI certification, credit unions (and other qualifying FIs) must a) have a primary mission of promoting community development; b) provide development services to low-income people or residents or eligible target markets; and c) demonstrate that at least 60% of their financial services activities are directed to qualifying target markets, low-income consumers and underserved populations.

The narrative below, submitted by one of our credit unions, captures both the human and institutional benefits of credit disability insurance.

> *"[Our credit union has] a heart patient and a double stroke/cancer patient both of whom were in good health at the time the policy was issued, and who are currently using the disability portion. Both are low income members who would have not been able to get this insurance otherwise. Members who have taken this insurance have not caused losses to the credit union because of the insurance, whereas otherwise both [the borrower and the credit union] would have been affected by the loss -- the credit union because the members would not have been able to make the payments when due because of loss of income, and the members who, because of lack of income and very small savings balances, would have been unable to make good on the loan and [this would have] hurt their credit ratings."*

If awareness of and access to insurance products is limited for low-income consumers, the situation is much worse in immigrant communities, where asset protection is not yet part of the culture or is perceived as out of reach. Furthermore, language barriers and the lack of understanding of the financial system make people vulnerable to abuses or highly priced products.

Created to meet the needs of people of small means, credit unions have historically offered credit and disability insurance as a simple and affordable asset protection option for consumers.

<u>Concerns with FRB Reg. Z disclosure language</u>

By lumping together debt cancellation policies (which are not insurance products and therefore not subject to regulation and in addition are not backed by an insurance company) and credit insurance (which is highly regulated, with extensive disclosures and backed by an insurance company that guarantees benefit payments), the proposed Reg. Z disclosure language will have the unintended consequence of reducing access to the already limited (and in some cases nonexistent) asset-protection options for low-income consumers.

Finally, some of the proposed language is confusing and can be misleading to consumers. Specifically we object to the following:

- *"Other types of insurance can give you similar benefits and are often less expensive."* This warning assumes that the consumer has access to or is aware of other type of insurance coverage and ignores the asset protection nature inherent in credit insurance. Furthermore, it does not explain that cost and even eligibility for those other types of insurance are determined by a range of factors (health, age, gender, occupation, etc).

- *"You may not receive any benefits even if you buy this product"* It should be recognized that *all* insurance policies have coverage limitations and exclusions. Consequently, benefit payment takes places when those conditions are met by the consumer.

Thank you for this opportunity to comment on this issue. Please feel free to call on us (crosenthal@cdcu.coop) for further dialogue or comment as Reg Z moves toward its final form.

Sincerely yours,

Clifford Rosenthal

Clifford N. Rosenthal
President and CEO