



December 21, 2010

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 to suggest some changes to the credit insurance, debt protection and GAP rules. In general, TwinStar Credit Union concurs that the proposed disclosures will provide information that consumers should consider when choosing credit protection insurance products. Credit unions, as a whole, favor procedures that inform and empower consumers to make decisions appropriate to their own particular circumstances. Credit insurance disclosures however, carry an extra responsibility to ensure that a balanced presentation of the facts is included. These products are most frequently offered by credit union employees that are not licensed to provide insurance advice and who may not legally be able to respond to questions a consumer may have after reading the proposed disclosure. To that end, we are offering the following specific recommendations:

1. "Do I need this product?" – We believe this section is irreconcilable to the purposes of a consumer disclosure. Need for a product is highly subjective and cannot be determined or disclosed in any reasonably objective manner. The sample form goes on to give a rather one sided view of individual insurance versus the group insurance that is customarily offered. While it is true that younger and healthier consumers may be able to obtain individual policies at rates favorable to the group rate offered in conjunction with their loan, it is also true that older and less healthy individuals may pay more for comparable insurance, may have to submit to extensive health questionnaires or exams and may not be eligible at all. We recommend that this section be eliminated from the disclosure or revised to better inform the consumer of the pros and cons between a group policy offered through a lender and insurance available to individuals.
2. "Can I receive benefits?" – The response on the sample form is not sufficient to fully inform consumers of the specific eligibility requirements for the policy in question. It leaves rather, a vague impression that a legitimate claim might be denied on an unknown and unknowable basis. We believe that this section of the disclosure should be expanded and made more specific. Our experience has shown that consumers tend to sign up for coverage that they are not eligible for, and we believe a clear and precise presentation of eligibility requirements specific to the offered policy would be beneficial to both consumers and the offering institution.

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3. "How much does it cost?" – We agree that the cost of credit insurance is an important disclosure. This disclosure could be significantly improved however, by placing it in context. As a credit union, we are beholden to our members to seek out products that are both beneficial and also cost effective to our members. To that end, we work hard to ensure that credit protection products which we offer provide real value at competitive cost. The disclosure of cost would be much more effective for consumers if they were informed of where that cost fell in comparison to similar products, much like the energy efficiency scale one might see when selecting a new refrigerator. This would not only give the consumer a meaningful cost context, but it would foster cost competition amongst the credit insurance providers. This, of course, would require that the insurance industry provide this scale to lenders.

To these specific suggestions we would add that consumers have traditionally expressed a great appetite for credit protection products. These products are beneficial to the credit union as well, providing a source of revenue and a level of loan loss protection that enables us to keep our interest rate and fee charges low. Our employees and payment protection vendor offered the following examples in support of our credit protection programs:

- Between January 1, 2008 and August 31, 2010 a total of 123 payment protection claims were filed and total benefits paid was \$507,619.34.
- An employee took family leave to stay home with her newborn. The pregnancy was unplanned and the employee did not have sufficient sick and/or vacation benefits accrued. Payment protection on her auto loan enabled her to take advantage of the full 12-week leave allowed by FMLA. She returned to work with a positive attitude and stronger financial future.
- A few years ago, two members each lost a hand during the 4th of July weekend. One of the members had payment protection; the other did not. Both members were manual laborers and required retraining. The member with payment protection had a much easier time transitioning financially knowing that payments for his much needed vehicle were covered. The other member had a much more difficult time; unable to work, he had to struggle while waiting for state disability to provide coverage.
- An employee's father-in-law purchased payment protection on his credit card balances which saved her mother-in-law from losing the house after his death.

We are aware, however, that these products can be misrepresented and overpriced, and that consumers may not have the information necessary in those instances to protect their own interest. For that reason, we support improved disclosures. The primary objective of the improved disclosure should be to better inform the consumer – not to unfairly represent credit protection products as generally unsavory. To that end, we believe more work is required to produce a disclosure that will fully inform and empower consumers to make decisions appropriate to their particular circumstances, and we urge you to revise the proposed disclosure accordingly.

We ask the Board to reconsider the proposed rule change and to offer more balanced, objective disclosures.

Sincerely,



Marshall Ellison
President/CEO
TwinStar Credit Union