From: Sovereign Bank, Lynn Schaffer

Subject: Regulation Z - Truth in Lending

Comments:

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Re: Proposed Rule - Revisions to Reg Z - Credit Protection Products Docket No. R-1390 Dear Ms. Johnson: I am writing on behalf of Sovereign Bank to oppose the changes to the credit insurance and debt protection rules. We believe that the disclosures are misleading and will hurt not only us, but our borrowers as well. We have been offering Sovereign's Loan Protection Plan since 2002 and our borrowers have found it to be a very beneficial product. It helps them pay off a loan or make payments in time of need. It provides a valuable monetary benefit, as well as peace of mind knowing that the debt will be taken care of if the borrower dies, becomes disabled or unemployed. It also helps protect borrowers' credit ratings, which is invaluable when it comes to managing their finances. We have received comments from numerous borrowers who have shown much appreciation for the protection. Some responses include: "It kept us from going bankrupt", "We would have been out of a house" and "It enabled me to remain in my home during a very difficult time". It is also a very beneficial product for us as well. Having credit protection on our loans provides us extra assurances that the loans will be paid on time. This decreases our charge-offs and loan losses. The product also provides us with a valuable source of non-interest income. All of this plays a vital role in the safety & soundness of our institution. When we offer loan protection 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 object to providing new or revised disclosures, as long as such disclosures are reasonable and accurate. However, we believe the proposed disclosures are inaccurate and misleading to consumers. The tone of the disclosures is also unduly negative and alarmist. Some of the disclosures of most concern are: 1. "If you already have enough insurance or
savings to pay off this loan if you die, you may not need this product." Such a

statement is inconsistent with the advice given by financial planning experts that most American families need more, not less, life insurance. And consumers agree. In a recent survey, 50% of households felt they needed more life insurance.1 Purchase of credit protection products provides valuable coverage even to consumers who already have their own insurance, because they will not have to deplete their other coverage in order to pay off their debts. For example, our borrower may have a $100,000 term life policy. But purchasing credit insurance on her $30,000 auto loan provides $30,000 in additional benefits, and ensures that the vehicle loan is paid off and that our lien on the vehicle is extinguished. In such a scenario, our borrower's beneficiary will net $100,000 in life insurance proceeds AND a fully paid-for vehicle with no lien on it. Without credit insurance, our borrower's family would have to continue making payments on the vehicle (or risk repossession). This nets our borrower's family only $70,000 of life insurance, or continues the burden of making monthly payments on the loan. 2. "Other types of insurance can give you similar benefits and are often less expensive." This statement does not take into consideration disability and involuntary unemployment coverage and implies that term life insurance products are similar to a debt cancellation or credit life product. But they are not similar. While both types of policies provide benefits upon the insured's death, the comparison stops there. For example, our debt cancellation program does not require health questions. The only eligibility requirement at time of application is that the consumer must be under the age of 66. Under our program, the consumer does not need to complete an application or have a medical exam. With credit insurance, the restrictions are generally mandated by state insurance law. The cost for credit life insurance is determined by state law (fees for the protected event of Death under a debt cancellation contract are comparable to credit insurance premiums) and this cost is based only on the loan amount. A consumer taking a $10,000 loan would pay less than $10.00 per month for life protection (the monthly fee will decrease as the loan balance decreases). For a low monthly cost, the consumer easily and conveniently obtains just enough life protection to cover the loan, even if he or she has health issues and regardless of occupation, smoking status, or recreational interests. On the other hand, to purchase term life insurance, the consumer typically must apply for a minimum of $100,000 of life insurance. The application is lengthy. It can be several pages long with over two dozen questions regarding the consumer's health and family history, covering a broad array of health concerns and diseases, including smoking, prescriptiodrugs, cancer, diabetes, seizures, and

depression. There are also questions about the applicant's finances, occupation, and recreational interests. Detailed responses are required of all 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. Even 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. After all of this, the out-of-pocket cost of the term life policy may not be less than the monthly cost of a credit life product. For consumers who are older or not in excellent health, term life insurance can cost more each month than credit protection.2 Consumers looking to purchase an independent disability insurance policy would also find the same stringent qualifying requirements at a cost that typically exceeds that of credit disability protection. Independent involuntary unemployment insurance is not typically available in the US marketplace from a traditional insurance agent. 3. "You may not receive any benefits even if you buy this product" This statement is apparently an attempt to tell the consumer that there are eligibility requirements, conditions and exclusions that could prevent the consumer from receiving benefits under the policy. This is not, however, what the language conveys. The language could lead consumers to mistakenly conclude that, if a cash benefit is not paid, then buying the product was a waste of money. This is absurd, however, since consumers buy insurance policies all the time while hoping that the covered event never occurs. Just because the borrower did not die during the term of the loan does not mean that purchasing credit life insurance or debt cancellation was a bad purchase. This statement is also very alarmist. It makes it sound like buying credit protection is a rip-off. On the contrary; according to IAC, our credit protection vendor, it denies less than 7% of our debt cancellation claims due to eligibility restrictions and/or a determination that the consumer was never eligible for coverage in the first place. There is simply no need to alarm the consumer or mislead them into thinking that they will not receive benefits under the program. We believe that there is an effective alternative to this language: "There are eligibility requirements, conditions, and exclusions that could prevent you from receiving benefits under this product. You should carefully read our additional information and/or the contract for a full explanation." This language is required by the OCC under its debt protection rules. It is objective and factual and tells the consumer where to find further explanation, with no underlying tone of bias or negativity. OTHER OBJECTIONS TO THE PROPOSED RULES Besides the content of the disclosures, we have two objections to the proposal generally. Faulty consumer testing of the disclosures. First, the Board has based the new disclosures on consumer testing. However, they were tested only by ten consumers in the first round of testing, and eight consumers in the second round of testing. This hardly seems like a representative sample large enough to form any valid conclusions, especially considering that these disclosures will be provided to millions of consumers each year. The Board is overreaching. Second, 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. But we question how the 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 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 that 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 that there are "less expensive" alternatives; or if he does not know that there are eligibility requirements at claim time. Therefore, the Board argues, it can expand the disclosure requirements to avoid these scenarios. e would argue, however, that the Board should 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 the intent, and specific language, of TILA. Whether a borrower purchases credit protection does not factor into our credit decision. As such, we should be able to exclude the cost of the product from the APR, and should not be subject to 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 protection (as well as the other additional fees that the Board is proposing) in the APR for closed-end mortgage loans will hurt consumers. It will skew the APR and will, by definition, force a consumer to compare apples to oranges when comparing loans between lenders. The consumer will have no way of knowing which products and/or fees are in one lender's APR, and which are in another's. The Board's own research has continually shown that consumers do not understand the effective APR. The Board should eliminate all fees from the APR, similar to what it has done for credit card statement requirements. It should not adopt the all-inclusive APR. CONCLUSION We believe the additional disclosures will hurt us and our borrowers. They are misleading and do not further the purpose of TILA. These proposed disclosures appear to intentionally 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 like regional and community banks, credit unions, and other lenders. We also believe that including the credit protection premiums and fees in the APR will hurt consumers. They do not understand the effective APR, and forcing us to include fees in the APR will cause the consumer to be comparing apples to oranges when shopping for credit. This defeats the purpose of TILA. At a time when the need for protection is greater than ever, this approach seems in direct conflict with consumers' best interests. We ask the Board to withdraw the credit protection proposal or, alternatively, to reconsider more balanced, objective disclosures. Sincerely, Lynn Schaffer Vice President Loan Protection Program Manager Office: 610.297.8285 Email: lschaffe@sovereignbank.com 1Trends in Life Insurance Ownership, August 27, 2010, LIMRA International, Windsor, CT. 2Calculation based on current prima facie rates as set forth in Minnesota Rules, Part 2760.0050.