Redwood
Credit Union

December 20, 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 Changes to Credit Insurance Disclosures under Regulation Z and the Truth-in-Lending Act
Docket No. R-1390

Dear Ms. Johnson:

Please accept this comment letter on behalf of Redwood Credit Union in opposition to the proposed changes to the credit insurance and debt protection disclosures under Regulation Z. Our credit union currently offers debt protection products including payment protection along with credit life and credit disability insurance. While we support the intent to establish simple, conspicuous and transparent mortgage disclosures, we believe these new rules, if finalized as proposed, will have a negative impact on our Members, our credit union and the credit union industry as a whole.

We request that the Federal Reserve Board (FRB) withdraw the current proposal to change payment protection disclosures, and replace it with revisions that provide the consumer with more accurate and balanced information about the products.

The purpose of this letter is to address our key issues with the proposed changes.

1. Disclosure language changes are unnecessarily negative and discourage the purchase of payment protection products by consumers.

   Here are the specific disclosure changes that we object to:

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

   Although there may be slight relevance on a case-by-case basis when considering life insurance, this statement is misleading with regard to debt protection, which offers more facets of coverage for the consumer. Debt protection coverage is intended to supplement existing finances and coverage so that the financial plan is not disrupted in case of involuntary unemployment, disability or death. Should an individual purchase only enough life insurance to cover existing loans, there will be nothing left for their beneficiaries that might rely on that income for their future needs.

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

We believe that consumers will struggle to find supplemental insurance in the smaller amounts that debt protection products offer. In addition, other existing products, such as term life insurance may not be available to certain individuals as many require completion of a questionnaire and often require a health exam. Furthermore, term life insurance policies are often more expensive than debt protection products. They do not protect a consumer in the event of involuntary unemployment, which may significantly impact a consumer's ability to keep their family in their home, preserve their credit rating or ensure they have a vehicle for transportation.

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

Consumers purchase insurance to protect themselves from unplanned, life-changing events. In fact, most consumers hope that they never have to use their insurance. If a consumer does not die during a 20-year term life policy, they do not get paid. However, they received peace of mind that in the event of their death that they have provided the necessary finances to pay off their debts and provide for their family members. These products are no different. Many consumers purchase insurance for the peace of mind and comfort that the products bring which is a benefit in and of itself.

After reviewing the above disclosures, what consumer would even consider purchasing debt protection given the apparent fact that our federal government is advising that they probably don't really need this coverage; they can get the coverage cheaper elsewhere; and even if they buy the coverage, they probably won't be covered anyway?

These statements about the products are simply not true. The vast majority of consumer borrowers are eligible for these products, and for a reasonable monthly premium, they receive valuable benefits, protection and peace of mind from these products.

We challenge the FRB to go back to the original intent behind these disclosure changes and find a better way to help consumers understand payment protection products.

2. <u>Cost of product is misleading and fails to consider the declining balance of the loan.</u>

The statement "This product will cost up to $108 per month if you borrow the entire credit limit" does not consider that the cost decreases over time as the loan balance decreases. In fact, the cost will change based on the outstanding balance. We would suggest using a cost per $100 of loan balance as a more accurate way of making the disclosure with the notation that the cost decreases as the loan amount decreases.

3. Insufficient sample size used to test disclosures.

   We were surprised to learn that only 18 consumers were involved during two rounds of testing the proposed disclosure changes. Research has proven that the minimum sample size required for hypothesis testing is a mathematical function of three factors: alpha, power, and a priori effect size, which were not used in this study. Using an insufficient sample size does not seem adequate to make such impactful changes to these products, which are important to our Members and to our credit union.

4. Members have benefited significantly from their payment protection benefits. The misleading language could have prevented Members who have benefited from payment protection from purchasing these products.

   Year-to-date through November 2010, our Members have received payments of $167,201 that they might not have otherwise been able to make in the face of these life-changing events. This amount includes:
   - $62,320 in Credit Life claims
   - $94,174 in Credit Disability claims
   - $10,708 in Payment Protection claims

   Purchasing this coverage has made a dramatic difference in the lives of our Members.

   For example, Jennifer and Mike Smith* have been Members with Redwood Credit Union since 2002. Jennifer lost her 13-year battle with cancer in November of 2010. During her illness, Jennifer made sure that her loans were protected so that her husband would not have to be concerned with making payments on their two automobiles and Visa credit card, along with a large amount of medical bills and funeral expenses while on a reduced income. Mike benefited from payments made for his two cars and Visa account in the amount of $40,690. In addition, as Jennifer used to handle the household finances, Mike was left unsure of how to take care of the day-to-day financial matters. Redwood Credit Union stepped in to assist Mike. A senior Member Service Representative from Redwood Credit Union has been working with Mike on a weekly basis to teach him how to handle the financial tasks.

   Michelle and Joe Brown* also benefited from purchasing Credit Life protection. Joe passed away in early July. With his passing Michelle would have been left with a large auto loan balance. Instead, their Credit Life Insurance paid off the loan on their 2009 Laredo in the amount of $45,467.

   We have never heard from a Member that regrets purchasing insurance/debt protection when they have had to use it. On the other hand, we can point to many examples of Members who have been glad they purchased insurance/debt protection and other's who wished they had insurance/debt protection when they needed it.

   *Note: Members names have been changed to protect their identity.

5. The proposed rule revisions to Reg Z will jeopardize many credit unions' ability to generate non-interest income and increase risk of loan losses and charge-offs.

   While credit unions are in the business of putting their Members first, we realize that we do our Members a disservice if we do not work diligently to keep our credit unions solvent. We believe that the proposed credit insurance/debt protection disclosures will not only hurt our credit union's ability to generate much needed non-interest income but also lead to an increase in loan losses and charge-offs if consumers are made to feel credit insurance/debt protection is an unwise investment due to misleading and inaccurate disclosure language. Ultimately, this will lead to less available consumer credit.

In conclusion, we believe the adoption of the proposed disclosure changes would most certainly lead to a decrease in our member's election of voluntary debt protection coverage. This would translate into less non-interest income for our credit union, more risk for our loan portfolio in terms of delinquencies and charge-offs and fewer Members enjoying the benefits of debt protection on their loans. We respectfully ask the FRB to withdraw this debt protection disclosure proposal and consider alternative revisions that would give the consumer fair, accurate and balanced information about credit insurance/debt protection.

Help us protect our Member's financial health and the safety and soundness of our credit union.

Sincerely,

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