NEW ENGLAND INSURANCE TRUST (NEIT)

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:

We are writing on behalf of the Officers, Trustees and Member Institutions of the New England Insurance Trust (NEIT) to oppose the changes to the Group Mortgage Life Insurance protection disclosure rules referenced above. We believe that the disclosures are misleading and will harm us and our borrowers.

Our Trust was formed in 1963 with the goal of providing member institutions and their borrowers with an optional Group Mortgage Life Insurance plan from a highly rated insurer, that was easy to qualify for and that was reasonably priced. Toward that end, we have maintained a philosophy of offering our borrowers one of the lowest cost group mortgage life insurance programs available in the marketplace while keeping economic and actuarial realities in perspective. This guiding philosophy has served us, and our borrowers, well for more than 45 years.

The optional insurance programs we offer to borrowers help them pay off or greatly reduce the amount owed on their mortgage loans at an important time of need. They provide a valuable monetary benefit, as well as peace of mind that comes only from knowing that the borrower's family will be able to retain their home in the event of the death of the primary or secondary wage earner. Coverage also helps protect borrowers' credit ratings.

Our Group Mortgage Life programs are also a very beneficial for our financial institution members. Having mortgage life insurance available for our mortgage borrowers provides extra assurances that covered loans will be paid on time and decreases charge-offs and loan losses. Perhaps if our programs had been available nationwide over the past 5 years America would have had fewer borrowers defaulting on their mortgages. The product also provides us with a valuable source of non-interest income, thereby further enhancing safety and soundness.

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In the nearly five decades that the Trust has operated, very few, if any, complaints have ever been filed with New England State Insurance Departments regarding the cost, appropriateness, or claims practices of the insurance protection we offer. Simply put, the proposed additional disclosure requirements appear to be trying to fix a problem that patently does not exist.

Our financial institution members make sure (through on-line and in-person seminars) that each of their lending officers are well versed in the features, benefits, and limitations associated with the sponsored plans of the NEIT. When we offer the protection provided by Group Mortgage Life Insurance to our borrowers, we do so in a responsible manner, designed to follow the law and to fully inform the borrower about the product so that a borrower may make an informed financial decision that meets their unique protection needs.

We have always provided disclosures to our borrowers, and do not object to providing new or revised disclosures, as long as such disclosures are reasonable, factually accurate and do not mislead the borrower. The disclosures as proposed, however, fall far short of meeting this standard. By way of illustration, we direct you to the following proposed language:

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

A disclosure such as this is particularly misleading because it increases the likelihood that borrowers will make decisions that leaves their loved ones insufficiently protected against catastrophic loss. Purchase of Group Mortgage Life Insurance provides a valuable benefit to mortgage borrowers – even to those who already have their own insurance – because they will not have to deplete their existing coverage in order to continue to make their Mortgage payments. For example, if the original reason for purchasing a life insurance policy was to assure that funds are available to pay college expenses for the borrower's children, the purchase of our Group Mortgage Life Insurance protection will help assure that the proceeds of the individual life policy remain untouched and available to fulfill their original intended purpose. Only by securing life coverage sufficient to meet the borrower's enduring financial obligations does a borrower provide true security for his or her survivors in the event of the borrower's death.

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

This statement implies, for example, that term life insurance products are similar to our Group Mortgage Life Insurance products. But they are not similar. While both of these policies will provide benefits upon the insured's death, the comparison stops there.

For example, our Group Mortgage Life Insurance program has a very limited number of health questions that must be answered to qualify. The only other eligibility requirement is that the borrower must be under age 70 at time of application. On a 30 year mortgage loan our carrier will cover that borrower until the maturity of the loan (i.e., for a borrower just turning age 70 at time of application, the coverage would remain in force to age 100). For a low monthly cost, the mortgage borrower easily and conveniently obtains just enough life insurance to cover the mortgage loan balance, even if he or she has some health issues and regardless of their occupation, smoking status, or recreational interests.

On the other hand, to purchase term life insurance, borrowers typically must apply for a minimum of $100,000, $200,000, or even $300,000 or more of life insurance. The application is lengthy. It can be several pages long with over two dozen questions regarding the borrower's health and family history, and covering a broad array of health concerns and diseases, including smoking, prescription drugs, 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 our Group Mortgage Life Insurance. For our borrowers who are older or not in excellent health, term life insurance can actually cost more each month than our Group Mortgage Life Insurance coverage.

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

This statement is apparently an attempt to tell the borrower 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 our Group Mortgage Life Insurance was a bad purchase.

This statement is also very alarmist. It makes it sound like buying Group Mortgage Life Insurance is a rip-off. On the contrary, according to Minnesota Life, one of our insurance program underwriters, they deny less than 2% of mortgage life 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 all of our borrowers or mislead them into thinking that they will not receive benefits under the program.

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OTHER OBJECTIONS TO THE PROPOSED RULES

Besides the content of the disclosures, we have four objections to the proposal generally:

The Board is overreaching. The Board states that it has authority to expand the disclosures. According to the Board, it is relying on the "voluntariness" standard cited in the commentary to Reg Z. 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.

We agree with Minnesota Life Insurance Company (our carrier) and would argue that the Board should revisit 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 a 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 client's loan approvals. The Board has wandered far a field of the intent, and specific language, of TILA. Whether a borrower purchases our optional Group Mortgage Life Insurance protection cannot and does not factor into our credit decision. As such, lenders should be able to exclude the cost of the product from the APR, without being required to provide additional disclosures that have no statutory basis for their existence.

The Board violates the explicit language of TILA. We further conclude that certain aspects of the proposed rule are in direct opposition to the language of the Truth-in-Lending Act. Congress has mandated in TILA that a lender may exclude from the APR premiums and fees for optional credit insurance coverage 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 proposed rule, however, would require the exact opposite; namely, that premiums and fees be included in the APR on mortgage loans even in instances where the lender has fulfilled the statutory requirements for exclusion.

We can fully appreciate and understand that 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.

Including voluntary fees and premiums in the APR will hurt the ability of our borrowers to comparison shop. Including the cost of group mortgage life insurance protection (as well as the other additional fees that the Board is proposing) in the APR for closed-end mortgage loans will hurt our borrowers. It will skew the APR and will, by definition, force our borrowers to compare apples to oranges when comparing loans between lenders. The borrower 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.

Faulty consumer testing of the disclosures. Finally, the Board has based the new disclosures on consumer testing. However, versions similar to the proposed disclosures were tested only by ten consumers in the first round of 2010 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 tens of millions of consumers each year.

CONCLUSION

We believe the additional disclosures will harm us, and our borrowers. They are misleading and do not further the purpose of TILA. These disclosures will scare borrowers away from buying a product that could have great benefit to them, and may hurt the safety & soundness of our institutions.

We also believe that including the group mortgage life insurance premiums and fees in the APR will harm our borrowers. Many borrowers already do not understand the effective APR, and forcing us to include fees in the APR will cause the borrowers to be comparing apples to oranges when shopping for a mortgage loan. This defeats the purpose of TILA.

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

Respectfully submitted by the Officers, Trustees and Member Institutions of the New England Insurance Trust as follows:

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Christopher D'Elia, Treasurer and President of Vermont Bankers Association, Montpelier VT

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