



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 oppose the changes to the credit insurance, debt protection, and GAP rules. We believe the disclosures will cause borrowers to forego a valuable product, and in turn increase the cost of credit for everyone.

Many of our borrowers work in manual labor and other dangerous occupations. Obtaining benefits through workman's comp can be complicated and is not enough to live on. Disability coverage that borrowers may have through their employer typically covers no more than 60% of their income.

Credit protection products help our borrowers pay off a loan or make payments in times of need. This protects their credit ratings and gives them peace of mind during a terrible time.

Since January 2008 American 1 Federal Credit Union paid out \$1,335,751 in Credit Life Claims, \$1,695,142 in Disability Claims, and \$441,981 in GAP claims. Because of these products, the credit union and its membership was protected for over \$3.4 million in losses.

The credit insurance products are also beneficial for the credit union. Having credit protection on our loans provides American 1 with extra assurance that the loans will be paid on time. This decreases our charge-offs and loan losses. The products also provide us with a valuable source of non-interest income. All of this plays a vital role in the safety and soundness of our institution and allows us to keep interest rates and fees low.

Because American 1 has been successful in selling the credit insurance, we have leverage to negotiate lower insurance premiums for our members, increase the age of life insurance eligibility to 75 years old and disability to 68 years old. This not only helps protect the entire membership from losses, it also allows longer coverage for our members to protect them and their family from financial hardship.

American 1 is a not-for-profit financial institution; however that does not mean we do not need to make income in order to continue to operate as a business. As mentioned in the paragraph above without this protection American 1 FCU and its membership would have suffered over \$3.4 million in losses since January 2008. This would leave financial institutions like American 1 no other choice than to pass the burden on to the member. Without the ability to offer credit insurance products, American 1 would be forced to raise loan rates, charge higher fees on other credit union products and services, including 46 surcharge-free ATM machines, just to cover losses.

If fewer consumers purchase these products, fewer consumers will be able to repay their loans. Our loan losses will increase, and our non-interest income will suffer. Without this valuable source of revenue, and with climbing loan losses, we would have no choice but to raise the cost of credit for everyone and, for many borrowers, this means they will not qualify for credit at all. They will be forced into the arms of payday lenders, title lenders, and other harmful sources of credit.

We do not believe that the Board would intend such dire consequences, and we urge the Board to re-consider this rulemaking. We ask the Board to withdraw the credit protection proposal or, alternatively, to reconsider more balanced, objective disclosures.

We believe the proposed disclosures are inaccurate, misleading to consumers, and are unduly negative and alarmist. They will cause consumers to forego purchasing these products because consumers will be led to believe, incorrectly, that these products would have no benefit to them.

I would like to address the following statements that are listed on the example disclosure.

Do I need this product?

The assumption that most consumers are protected by external policies or savings is a fallacy. Listed below are life and disability insurance statistics based on the average consumer.

Life Insurance Statistics

- There are more than 44 million uninsured Americans.
Source: The Online News Hour, 2007
- One in four U.S households has no life insurance protection.
- Two out of every three U.S. households are underinsured.
- Almost four out of ten single parents' households have no life insurance.
- 28% of married women and 15% of married men have no life insurance at all.
- 10% of families with children under 18 (3.6 million households) have no life insurance protection.

Source: Facts from LIMRA International, 2007

Disability insurance statistics

- Over 70% of working Americans do not have enough savings to meet short-term emergencies.

Source: National Investment Watch Survey, A.G. Edwards Inc 2004.

- Three in ten workers entering the work force today will become disabled before retiring.

Source: Social Security Administration, Fact Sheet 2007

- Two-thirds of American families live from paycheck to paycheck.
Source: Parade Magazine, Is the American Dream Still Possible?, April 23, 2006.
- Over 100 million workers do not have private disability income insurance.
Source: Council for Disability Awareness, Long Term Disability Claims Review, 2005.
- 70% of the private sector workforce has no long-term disability insurance.
Source: Social Security Administration, Fact Sheet 2007

How much does it cost?

The maximum premium cost listed on the disclosure is alarming and misleading; with rate based on the dollars financed the premium is disclosed upfront on the loan note. Due to our member's high participation rate on our credit life and disability insurance coverage, American 1 Federal Credit Union has been able to negotiate lower premiums on our credit protection products. Rates for single life insurance are \$0.808 and joint life is \$1.253 per \$1,000 per month of the outstanding balance. Our disability insurance for revolving loans is \$2.58 for single and \$4.12 for joint per \$1,000 per month of the outstanding balance. With the insurance premiums that American 1 Federal Credit Union charges to participating members the loan would need to be over \$140,000 to come close to the maximum cost the proposed disclosure lists. We currently have 25,200 consumer loans totaling \$136,154,977 in our portfolio. The average loan is \$5,400; therefore, the \$100,000 cap is not an issue for most members. In fact, our average loan of \$5,400 would have a monthly premium of \$4.32 single life, \$6.75 joint life, \$13.32 single disability, and \$21.81 joint disability. The disclosed premium on the proposed disclosure states it could cost the consumer up to \$118 per month.

What about the maximum benefit amount?

Again the statement on the disclosure regarding the maximum benefit will not pertain to most consumers. American 1 Federal Credit Union only finances consumer loans specializing in used auto and unsecured lending. The maximum coverage for life and disability insurance is \$100,000 per loan amount. As stated above, our average loan is \$5,400, far below the max benefit amount stated in the disclosure.

Can I receive benefits?

The sample disclosure states that benefits may not be paid if insurance is purchased. The main requirement is age and terms of the coverage. For credit life insurance, the member needs to be under the age of 75. For credit disability, the maximum is 68 years of age with a term of 120 months. The other eligibilities are covered on the loan document and clearly covered with the member. There are not any hidden requirements or numerous exceptions that would prevent members from receiving the benefit. Again, our credit union alone paid out over \$3.4 million in the past three years. Since October 2009, American 1 has not denied any life claims and less than 3% of disability claims. Clearly our members receive the benefits they deserve.

How long does the coverage last?

The disclosure is completely inaccurate regarding the age that insurance coverage expires. At American 1 Federal Credit Union you are covered until you reach 75 years of age for life insurance, 68 years of age for disability insurance, or the first 10 years of your loan.

Along with the proven inaccuracy of the sample disclosure that is being proposed we have several testimonials from our members in support of the credit protection we provide. Not only do our members believe in our insurance coverage, they are willing to give testimonials on their personal misfortunes so that others may benefit from these products.

Disability Protection

Mary Omo

After falling off a ladder, Mary learned that her auto loan qualified for disability protection payments – meaning disability insurance would cover her loan payment. Since she was approved for disability coverage, Mary has let out a years-old sigh. “It was a tremendous relief,” Mary says. “I didn’t have to struggle to make ends meet.” Now Mary wants all American 1 members to know what a benefit disability protection can be, especially for its affordable price. “You need that added help to get you through the tough times,” she says. “It’s one less thing to worry about when you’re sick or injured.”

Dan Peek

On his way out of the house Dan tripped over his untied shoe lace and broke his ankle. He was off work for five months; luckily Dan had taken disability insurance out on his loan which made \$3,108 in payments while he was off work. Dan says without having disability protection on his loans “it would have caused his family a hardship.” He looks at credit life and disability insurance as part of the loan, and would take the protection on his next loan. “You never know what can happen,” Dan says. “It could be as simple as tripping over your shoe lace.”

Ricky Roberts Sr.

Ricky was off work due to surgery and the disability coverage made \$664 in payments to his loans. He has been a member since 2000 and takes the coverage out on all his loans. Ricky says “American 1’s disability coverage took away the worry of how he was going to make his payments while off work.”

Michelle Roderick

Back in June of 2010 Michelle had a grand mal seizure which left her unable to work due to complications. Michelle and her husband were afraid they were going to lose their vehicle due to loss of income. She said when she found out she had disability coverage, “It was a sense of relief” The doctor told Michelle that she will probably never be able to return to work. The disability coverage is currently being paid on both her vehicle and her American 1 Visa.

Debora Quick

Debora contracted shingles on her head, causing a main nerve to be attacked and making her unable to work. She was at ease thanks to American 1's disability coverage. Debora says the credit protection "Doesn't cost much" and prevented her from potentially having her vehicle repossessed. Debora said she would purchase the credit life and disability on future loans.

Ronnie Wellington

Ronnie had surgery on his shoulder because of a cyst. He knew he purchased credit protection on his vehicle but didn't realize he also had it on his Visa with American 1. "It was a great relief not to worry about making those payments," he says, especially when money was short. Ronnie would definitely purchase the products on his loans in the future.

Faith Jordan

When Faith was faced with surgery due to Spinal Stinosis, she was thankful for the credit life and disability on her loans with American 1. She had a timely recovery and said "I didn't worry about vehicle repossession." Faith also mentioned that her employer didn't offer any form of disability so the coverage the credit union offered allowed her to keep her vehicle and have transportation during her recovery. She said she would purchase this product on all loans taken out in the future.

Stephanie Corser

When Stephanie broke her foot due to an unexpected fall, she was off work for six weeks – but was glad her loans were covered with American 1 thanks to disability coverage. She saw the credit life and disability insurance as a "Safety net" that was "Definitely worth the cost." Without the product Stephanie says she would have faced late payments and possibly repossession. She would purchase the product on future loans and also recommend it to a friend.

Kristen Davenport

While hanging Christmas lights Kristen fell and broke her neck. At the time she was completely paralyzed from the neck down. She said she remembered that she had disability on her loans which was a relief "I could concentrate on healing and not about how I was going to make my loan payment" Kristen remarked; "Without the protection I would have had to give the car back to the credit union." She is very grateful for the coverage and would take the product again on future loans.

Vickie Pickle

Vickie slipped on the ice and shattered her ankle in March 2010. She said they always take credit life and disability on their loans because "If something were to happen we wouldn't be able to make our payments." Vickie was very relieved she had the coverage, since her husband had recently lost his job. "If it wasn't for the disability coverage I wouldn't have been able to make my payments," she says.

Sharon Burdette

Sharon has used her disability coverage twice, first time for an operation and now for other health issues. Her employer pays fifty percent of her wages while off work however; that isn't enough to cover monthly expenses. Sharon said by having the disability coverage on her loans with American 1 it made it possible to pay her utilities and housing. She has used the disability coverage two times in two years and says "she will always take the coverage" and that "It gives her peace of mind" not having to worry about losing her vehicle.

Timothy Chapman

What Tim thought was going to be a heart catheterization turned out to be triple by-pass surgery. This caused Tim a "Financial crisis" by going from working fifty hours a week to getting sixty percent of wages based on a forty hour week. The disability insurance he purchased from American 1 FCU ended up paying \$580 a month on loan payments. Tim said the coverage allowed him to use his wages from work on other bills. Having the coverage gave him "Peace of mind" knowing his loans would be taken care of. Tim said he will tell everyone he knows what a great product the credit union offers and will take it out on future loans.

Life Coverage**Ralph Fiebig**

When Ralph Fiebig's wife Mary retired, the couple decided that taking a bigger pension payment instead of more benefits seemed the right thing to do. After all, any bit of extra income helps. But when Mary passed away last year, so did her pension income. That left Ralph with a mortgage, car payment, and Visa payment.

Luckily, the Fiebig's decided to opt for credit life on both their auto loan and Visa card with American 1 Federal Credit Union. "Everything was taken care of," Ralph says. "I didn't have to worry about my car payment or my Visa payment anymore." Because Ralph and his wife placed credit life insurance, as their total loan of \$11,000 was paid off in full after Mary died. Now, with Ralph facing more medical costs and less income, paying off his auto loan and Visa balance leaves him with two less things to worry about. He says credit life isn't that expensive, and pays for itself when the unexpected happens. "And I was surprised at how smooth it all went," Ralph says. "It wasn't a bunch of haggling and phone calls. I just went to the branch and they took care of everything for me." Ralph now has his own American 1 Visa, and he chose credit life on that card, too, so his children won't be burdened when he dies.

Elizabeth Johnson

Elizabeth Johnson passed away very suddenly a few months ago. Although her husband Larry wasn't a joint account holder on her Visa, he was familiar with her balance and was extremely relieved that the balance of \$6,794.02 would be paid off by the life insurance that covered it. Although he wasn't liable for the Visa itself, having it paid off by life insurance meant that he didn't have to recover that loss from Elizabeth's checking account. He was able to use that money for other expenses after her passing instead.

Guaranteed Asset Protection

Travis Crall

After attending a Detroit Lions game, Travis and his girlfriend discovered his 2003 Dodge Ram truck had been stolen. After he filed a claim, Travis's insurance company only agreed to cover \$11,000 of his loan balance, leaving an \$8,000 balance. The up-front purchase of GAP only cost him \$235 and it covered the entire remaining amount of his balance, in addition he was able to use the \$1,000 GAP Advantage toward a Jeep. He opted for GAP again on his new auto loan. "For the one-time fee, it's worth it," he says. "It's better than paying a lot if something happens. Hopefully I don't need it again, at least in that kind of situation." GAP is much more affordable than paying the remaining loan balance should that "Something" strike again. "It pays for a little security,"

Danny Dykes

One morning in August 2008, Dykes was driving a half mile from his home when a driver ran a stop sign and plowed into his 2004 GMC Canyon. Dykes' truck rolled twice, and he woke up 12 days later in the hospital, sewn up with 128 stitches and several broken bones. "But there was only one thing I thought about when I woke up," Dykes says, "And that was my truck."

His canary yellow GMC Canyon, a special order from Huff Auto, was totaled. Luckily, he didn't have to worry about financing his next truck. American 1's GAP gave him \$1,000 toward the purchase of his next vehicle. Dykes' horrific accident wasn't the first time he used American 1's GAP Advantage. His wife used it to pay off a totaled 2000 Dodge Intrepid after an accident several years ago. "I never thought I'd use GAP, either," Dykes, says. "But we've used it twice."

Dykes opted to put GAP on his 2006 Dodge Dakota because of the two vehicle accidents. "I recommend it most highly," he says. "It'll only cost a few bucks, and you never know what's going to happen out there."

Erica Girard

Erica's son was involved in a roll-over accident on U.S. 127 in her 2001 Ford Windstar. Luckily her son wasn't hurt, but "the damage was pretty extensive" on her van, she says. GAP paid off the balance on her loan, and gave her \$1,000 to finance her next vehicle. Instead of owing several thousand dollars on her loan, GAP paid her to finance another vehicle. "I was very grateful," Erica says. Erica calls GAP one of the "best purchases" she's ever made and it didn't take much to convince her to purchase GAP with all of her vehicle loans. She says just knowing her vehicle would be covered in the case of another accident makes her feel secure. "I purchased it again in a heartbeat," Erica says. "I would never go without it again." Purchasing GAP now and saving thousands of dollars down the road made sense to Erica. Sometimes it pays to go with your instincts.

Frank Edging

On the way to a training session, Frank's Ford Focus was rear-ended on the highway – an accident that totaled his car. His GAP coverage not only paid off the rest of his auto loan,

but gave him \$1,000 toward his next vehicle. “I knew I could afford a bit better of a car, thanks to the GAP Advantage,” Frank says. “A thousand bucks makes a big difference on payments. You only use it once and you’re a believer for life.”

Jessee Frey-Cochrane

In the span of one year, Jessee had to use American 1’s GAP twice on different vehicles. In August 2006, Jessee’s “summer vehicle,” a 1995 Pontiac Bonneville in great condition, suffered from a sunroof seal leak and was wrecked by mold damage. Her insurance company ruled the damage as a total loss. The next year, in April 2007, her 2004 Ford Freestar caught fire after an electronic harness defect, leading to another ruined vehicle. Thanks to her GAP coverage, the difference between what Jessee owed on her vehicles and what the insurance company offered her in settlement disappeared. “It really paid for itself,” Jessee, an American 1 member since 1998, says, “especially after I used the \$1,000 GAP Advantage towards my next vehicle. American 1’s GAP was a flat rate, so now I tell people to go to a local credit union – it’s cheaper than the dealership. I won’t purchase a vehicle without GAP ever.”

Karrie Morts

Just five days after financing a 1998 Chevy Venture van, and purchasing GAP coverage, through American 1 Federal Credit Union, Karrie Morts of North Adams totaled the vehicle on the way to work. “You just never know what is going to happen,” Karrie says. “I had planned on having my van for longer than five days.” Thankfully, GAP insurance paid off her loan. Karrie’s insurance company only paid \$9,600 of the \$11,000 balance on her new loan. American 1’s GAP protection covered the remaining \$1,400, leaving Karrie free and clear and GAP paid \$1,000 to help finance her loan. “I wouldn’t have wanted to pay on a car that I no longer had, and I don’t think anyone else would either,” Karrie says. “It is a very low cost for the value that you get.”

Natalie Dwyer

When Natalie financed a 2002 Chevy Astro van, Dwyer, an American 1 member since 2003, learned that GAP covered the gap in her insurance coverage if her vehicle ever got totaled. “For a few more dollars, I took it,” she says. “I knew it would take care of me if something happened.” It was good foresight, because when a driver broadsided Dwyer’s van in July, American 1’s GAP coverage paid the loan off and gave her \$1,000 toward her next vehicle loan. Dwyer says the entire process was made easier thanks to GAP. “All I had to do was sign papers for the new vehicle,” Dwyer says. “Now I wouldn’t have a vehicle without GAP.” Dwyer took that \$1,000 bonus and financed a 2005 Dodge Durango. She also told her husband to get GAP coverage on his new truck. “I told him, ‘You won’t regret it,’” Dwyer says. “Even if it’s a few dollars more on your payment, it’s worth it.”

Nicholas Detlaff

The accident happened when Nick was taking his family to the airport for a vacation. He pulled up to an intersection and saw a semi waiting to make a left turn at the light. Nick pulled into the right lane, but things went horribly wrong when the big rig swung right, into Nick’s lane, smashing his Altima against the highway concrete. “Luckily he

stopped, or we would've been crushed," Nick said. "It was a mess." With the vehicle totaled, the insurance company's settlement left about \$2,500 on Nick's auto loan. "We weren't thrilled," he says. "We thought we would have to eat that payment." Thankfully, Nick opted for GAP on his loan. GAP covered the remaining balance on the loan, and gave him \$1,000 toward his next vehicle purchase. Nick says it was like a down payment toward his next vehicle. "Just because you're a good driver doesn't mean everyone else is," Nick says. "GAP is worth it. It ended up paying for itself." Nick now plans on getting GAP on his vehicle loans from here on out. "Not that you plan on getting into another accident," he says. "But anything can happen."

Protection for American 1 FCU Members

The proposed new section of Reg Z is not only completely inaccurate for the type of loans American 1 Federal Credit Union and many other credit unions offer, it is also an insult to the credit union philosophy. According to the Credit Union National Association "Credit unions continue to look out for their members' interests and provide a level of service that is not generally available at other financial institutions. Whether it's providing a loan to help a member cover unexpected medical bills, giving financial counseling to a member whose company closed its doors, or simply offering a better deal on a used car loan, credit unions make a difference for their members and the communities they serve."

The sample disclosure makes credit unions look like we are offering the same type of credit protection insurance that a car dealership or finance company would offer. Those types of financing sources do charge high premiums, and often the consumer isn't aware they have the product. If you want to help protect consumers you should be looking at those types of financing sources and exclude the credit unions that have the best and most affordable protection. Credit life and disability protection offered at credit unions help the member in time of need, protect the credit union from charged off loans, and prevent harm to the entire membership by keeping loan rates low and offering the best protection possible.

We do not believe that the Board would intend such dire consequences, and we urge the Board to re-consider this rulemaking. We ask the Board to withdraw the credit protection proposal or, alternatively, to reconsider more balanced, objective disclosures.

Sincerely,



David Puckett, President and CEO
American 1 Federal Credit Union