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TO: Federal Reserve Bank,
Regulation Comments

FROM: L. Wayne Mansur, President & CEO
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Wichita Falls, Texas 76306

DATE: Thursday, December 23, 2010

SUBJECT: Regulation Z Commentary
Docket #: R-1390 Credit Life Insurance and G-16(B) Credit Life Insurance Sample

Dear Sir/Madam,

I am writing in opposition to proposed Rule R-1390, Credit Life Insurance. The G-16(B) Form included in the Rule is non-neutral. The FRB should not write Rules that cause biased decisions. It seems clear that the intent from Rule 1390 is to scare people away from purchasing credit insurance. That is not appropriate. The information should be fair, unbiased and accurate. At the very minimum the proposed Rule is grossly misleading and in some cases downright false. A reading G-16(B) a reasonable person responds as follows:

> So, I will pay up to $63 a month for credit insurance for my $1,000.00 signature loan and they may not even pay off my loan when I die. My government said, STOP you don't have to buy this. This must be some sort of a scam or a pyramid or illegal. In fact, I wonder if there are other scams my credit union is offering. (*This was the actual response a member made to me when I asked him to read G-16(B).)*

Before dissecting the G-16(B) form included in R-1390, please listen to two stories, real stories. Recently, two dear friends of mine died. Both had loans with my credit union. Sandra called me on a November Saturday afternoon with anxiety and fear in her voice as she asked "Wayne, did my husband have life insurance on his cars financed with the credit union?"

Without hesitation or looking at her loan documents, I confidently responded, "Sandy, what's happened?" Choking back the tears she said, "The ambulance is here, and they're taking Wayne (her husband) out of the house right now. He just died of a massive heart attack and I need to know if these cars are going to be repossessed because I cannot afford to pay for these cars if he did not have life insurance on them." (He had diabetes, heart problems, COPD and was 65 years old. Despite these health issues he was eligible to buy and bought credit life insurance when no whole or term life would write him coverage.)

With 100% confidence, I reassured Sandy that if her husband borrowed the money, and I was his loan officer, then his loans had payment protection insurances. I assured her I would deliver the PAID car title to her Monday morning. As it turns out, the loans we funded at the credit union were fully protected and the credit life insurance paid off the loan.

Regrettably, one of Sandy's car loans did not have payment protection credit life insurance. This loan, Sandy told me, her husband took out at a local car dealership. She vividly remembers her Wayne telling the salesman "Oh, I have plenty of insurance and I when I get home I will ask my insurance agent to give me an extra $30,000 of life insurance." My friend never got extra life insurance despite several months passing. The good intentions were never fulfilled and the promise he made to his wife failed because he did not protect the loans.

The second story involves another friend, Skip. Skip grew frustrated with life. He had more debts than he could afford. After 28 years of helping buyers purchase payment protection credit life insurance for their automobiles in the indirect automobile sales business, Skip ended his life. Skip thought credit life insurance was expensive so he didn't buy it. (He didn't sell much either.) Following his suicide and after many months of his widow being unable to make payments on the only car that Skip left her, I was forced to make a very painful decision; I authorized the repossession of Kaye's only car. She and he thought that credit protection insurance was too expensive and now Kaye drives a junkie car. Is $7.24 a month too much for insurance?

Credit life insurance is not nearly as expensive as the fear mongers want you to believe. In Sandy & Wayne's loan he paid $327.13 in life insurance premiums over 3 years and at death his $23,615 loan was paid. In the case of Skip's if he had bought credit life insurance the total insurance premiums would have cost him less than $250.

Insurance not only paid in full Wayne's car at his untimely death, he also bought the peace of mind in knowing that if something happened, his bride would be well cared for. By contrast, Skip was selfish in not only taking his own life, but also by allowing his widow only piece of transportation to be repossessed. If nothing else, payment protection credit life insurance gives the insured the peace of mind of knowing if something happens the loan is paid.

Thirty years ago when I was in the funeral business, I never had a deceased's family member tell me they had too much life insurance. Never did they say that insurance was too expensive. In every case there was generally not sufficient money to carry on the family's business.

Now that we established clearly and emotionally the good value of payment protection products, let's proceed to an autopsy of the proposed FRB Rule.

"Do I need this product?" <u>If you already have enough insurance or savings to pay off this line of credit if you die, you may not need this product.</u> A wise financial counselor advises that anytime one expands their liabilities (a car loan) they should expand their assets, life insurance. When people purchase an automobile, the last thing on their mind is buying payment protection products. Their focus is almost exclusively on driving the new car. While it may be true "You may not **<u>need</u>** this product" in my past funeral business and credit management business, at death everyone "needs" more payment protection life insurance than they have.

This Rule continues <u>"Other types of insurance can give you similar benefits and are often less expensive."</u> This misleads. This does not compare similar insurances. Whole life insurance, term life insurance and credit life are not the same products. Each serves a different purpose. Unlike whole or term life, credit life insurance has a standardized premium regardless of one's age or health conditions. My 26 year old son purchased a $500,000 term life insurance for $280 per year. His Dad, at age 56 with a few health conditions purchased a term life insurance for

$2,286 annually. If both of us purchased credit life insurance for our $50,000 automobile, he and I both would both pay the exact same premium amount. Credit life insurance is not the same type of insurance as whole or term life and thus sentence misleads. (By the way, credit life is less expensive if the borrower has health conditions and can't buy whole or term. Why is this not communicated in the Rule disclosure?)

"How much does it cost?" This product will cost up to **$63 per month** if you borrow the entire credit limit. The cost depends upon your balance and interest rate. This is misleading. At our maximum $50,000 credit life coverage the monthly payment increases by $15.73 a month; not $63 a month. Is the form to be changed and customized with each insurance offered? If so, what amount do we accurately report in lieu of $63?

The most expensive credit life insurance we offer changes a loan payment by $15.73 per month. On a $50,000 loan paid in 12 months at 6.00% APR, with single credit life the first month's premium is $28.50, while the premium for the 12th and last month is $2.45. It is unfair to disclose the $63 that is the G-16(B) model. Further, it is wrong in my illustration to use $15.73 or $1.75 None of them are accurate. There is a fair method to communicate the cost of the insurance…report to the borrower as how much it increases their monthly payment over the amortized life of the loan, or the term of benefits. The method proposed is grossly misleading.

Use a fair and accurate solution. Communicate the cost of the insurance as a cost per $100 for balance outstanding. Alternatively, communicate cost as how much it changes the monthly payment.

"What is the maximum benefit amount?" There is no problem with this communication. A reasonable person knows a $50,000 life insurance policy, pays only $50,000 of benefit.

"Can I receive benefits?" "You may not receive any benefits even if you buy this product." The extra emphasis given to this is unfair. This sentence leads a reasonable person to a wrong conclusion. The proposed sentence leads reasonable people to believe the insurance might be a scam, or illegitimate. The only way the benefits will not be paid is if the insured does not meet the qualifications for the insurance. The proposed statement implies that although one qualifies for the benefits that "You may not receive any benefits even if you buy this product." This is misleading. At least state why "You may not receive any benefits".

My credit union's credit life product does not pay if the insured commits suicide in the first year following issuing the policy. If the insured dies within 6 months of purchasing the product from pre-existing condition for which they were treated in the 6 months prior to obtaining the policy the insured will not receive benefits from the product. This is communicated in our insurance documents and by our loan representatives. It is painfully misleading to imply that if the insured meets the qualifications for receiving benefits that "You may not receive any benefits…"

In the case of suicide or pre-existing condition, if death occurs and the benefits are not paid my insurance company refunds 100% of the premiums to the estate. The proposed document causes reasonable consumers to draw unreasonable conclusions and thus make poorly informed financial decisions.

"How long does the coverage last? This sentence is partially correct. The insurance does stop at age 70 or 10 years. But it also stops when the loan is paid in full. If the loan pays in full at the end of one year, the benefits stop. The way this is worded one could be lead to believe they have a 10 year term life policy. They don't. It is false to imply the coverage lasts until age 70 or 10 years when in fact the coverage ends when the loan pays off prior to 10 years.

In summary, the proposed G-16(B) form causes fear and confusion among the perspective buyers of the product. If the FRB's goal is to fairly communicate to the consumers who sincerely need financial counseling and guidance, this proposed Rule misses the mark.

Thank you for your time, and attention. The seriousness of this matter deserves a lengthy letter. I make myself available to you to help you draft a proper and appropriate option to provide to consumers who are trying to analyze the wisdom of purchasing credit life insurance. With the upmost respect and desire to improve the process, I am,

Sincerely yours,

/s/

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P.S. While typing this letter my loan officer came in to discuss Johnny's $19,000 auto loan. Johnny died and he has no life insurance. If Johnny had purchased our credit life, the charge for the insurance for the 5 year life of the loan would have been $533.42. He died one year after obtaining the loan, so his premium would have cost him $162.81. If Johnny had purchased that credit life insurance it would have raised his payment by $7.88 per month. This clearly answers two questions posed in the Rule: **Do I need the Product** and **How Much Does It Cost.** Yes, Johnny needed the product, and its cost is very reasonable. Because he was told he didn't need the product and it costs too much, today I ordered a repossession of the vehicle because his family cannot afford the payments. We will sell the truck and we anticipate our charge off losses will be over $5,000. This illustrates the value of credit life insurance.

P.S.S. I cannot resist helping illustrating a stark irony. The FRB form says, **"You may not receive any benefits even if you buy this product."** Follow with me in the story that I had to communicate to my mentally-ill brother. His wife, my sister-in-law, paid into Social Security for 43 years. She died at age 61 and did not receive any Social Security benefits. Nowhere did my government tell my brother or his wife that if **they pay their social security premiums that they may not receive any benefits**! Sandy did not meet the requirements for drawing the benefits; therefore nothing was paid to her; and that is appropriate. But to be fair shouldn't my government tell its citizens that their social security benefits may not be paid to them even if they pay the premium (tax) for all their life? Right?! If she had qualified she would have drawn benefits, and for credit insurance if an insured qualifies for benefits the benefits **are** paid.

(By the way, do U.S. citizens have the option to not "buy" social security, like we have an option to buy credit life insurance? We buy (pay taxes into) social security because we know it serves the better good of all citizens. Financial institutions offer credit life insurance because lenders know payment protection credit life insurance serves the better good of our customer-citizens.)

L.W.M.