CONSUMER CREDIT *INDUSTRY* ASSOCIATION

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December 22, 2010 **CCIA COMMENT LETTER 1 of 3**

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: The Federal Reserve Board proposals to revise disclosures - Docket No R-1390
Discussion of Consumer Value of Debt Protection and Credit Insurance
Comment Letter 1 of 3

Dear Secretary Johnson :

I. **Who We Are:**

The Consumer Credit Industry Association (CCIA) is a national trade association of insurance companies and other financial service providers selling or servicing consumer credit insurance, consumer credit related lines of insurance and other consumer products and services typically provided in connection with consumer credit transactions whether or not insurance. Our member insurance companies account for more than 80% of the national volume related to these products. Since incorporation in 1951 as an Illinois Not-For-Profit corporation, CCIA has been dedicated to preserving and enhancing the availability, utility, and integrity of insurance and insurance related products delivered through financial institutions or in connection with financial transactions.

II. **What We Are Interested In:**

CCIA's interest in the Proposed Regulation has several aspects, not the least of which is the apparent perception by the Federal Reserve Board (the "Board") that consumers either do not value or do not need debt cancellation, debt suspension or credit insurance products. For reasons developed in two other comment letters submitted by CCIA[1], we explain our disappointment and opposition to the Boards erroneous disclosures, the flawed and biased marketing survey by ICF Macro and the problematic inclusion of premiums and fees as finance charges in the calculation of the APR.

[1] We refer you to the comment letters submitted by the CCIA dated December 22, 2010 regarding "The Federal Reserve Board Proposals to Revise Disclosures – Docket No. R-1390, Mortgage Issues under the Rule (Comment Letter 2 of 3)" and "The Federal Reserve Board Proposed Rule Docket No. R-1390, Credit Insurance and Debt Protection Product Issues (Comment Letter 3 of 3)."

This comment letter is devoted to assisting the Board in understanding the debt protection and credit insurance products and their differences between the two. In addition, we explain in factual and objective terms the value that the consumers place on these products. The facts show that consumers want to purchase the products and need these products. In these difficult economic times, the Board does consumers a disservice and harm by effectively preventing or prohibiting these products.

The record established by the Board as the basis for the Proposed Regulation is deficient and it fails to adequately discuss the positive attributes of these products. We attempt to correct the record through the information contained in this letter which includes statistics from numerous studies that show the need for these products and demonstrate the value that consumers attribute to these products. Although we have done our best to supplement the record, we believe that, because the current record established by the Board is completely lacking with respect to an analysis of the merits and value of these products, the best course of action is for the Board to withdraw the Proposed Regulation. The Board needs to undertake extensive further study of the value that consumers place upon these products before attempting to regulate disclosure of these products.

III. **What Are The Products** ?

Consumer credit insurance is an insurance product regulated by the state departments of insurance in all 50 states by regulation and/or statute. Debt protection products are amendments to loan agreements regulated by the OCC, OTS and/or the NCUA and or state banking or loan laws. Credit insurance and debt protection products are specifically tailored to the loan agreement to waive or forgive the consumer's loan upon the occurrence of the covered contingency (typically death, disability or involuntary unemployment.) Credit insurance and debt protection products help consumers meet their loan obligations in the case of contingencies which are known to cause loan default or bankruptcy. The Truth in Lending laws and Regulation Z have provided lenders required disclosures for these products for the last forty (40) years.

The Board confuses an insurance product with a financial institution contractual obligation in 'lumping' the credit insurance and debt cancellation or debt suspension products into one definition of "credit protection products". Debt protection products are not insurance products. They are contractual obligations between the financial institution and the borrower. They are regulated by the OCC and are part of the lending agreement. As more fully described in our additional comment letters, the Board's proposal to lump debt protection products and credit insurance in one term is misleading and factually inaccurate.

IV. Consumers Value These Products

A. Consumer Value and Relevancy of Credit Insurance and Debt Protection Programs

The implication that credit insurance and debt protection programs provide little or no value to consumers at best, or are detrimental to them at worst, could not be further from the truth. Credit insurance and debt protection programs are designed to provide a 'bridge over troubled water' for borrowers should the unexpected occur – loss of life, sickness or injury, involuntary unemployment, or other unforeseen events. These programs help cancel or suspend debt, make monthly payments or pay off the loan, thereby keeping customers current with their loan

payments, reducing delinquencies or foreclosures, and ensuring consumers have one less thing to worry about during a time typically fraught with emotional and economic stress. In 2009, over $2 billion in benefits were paid from credit insurance programs alone.[2]

The economic security of American households has eroded in the last decade. Many low to middle-income households have experienced a growing gap between their incomes and their day-to-day costs of living, resulting in decreased savings, rising levels of debt, and widespread economic instability. Since the year 2000, many households have attempted to cope with this financial imbalance by relying on credit cards to cover basic expenses not met by their earnings. Cashed-out home equity - $1.2 trillion over the last six years – was used to pay down those debts and cover other costs of living, creating a situation of financial fragility for many consumers. [3]

The current economic climate, coupled with the decline of the traditional insurance agent distribution system [4], has resulted in ownership of individual life insurance falling to a recent 50 year low. Today, 30 percent of households (35 million) have no life insurance coverage compared with 22 percent of households in 2004. In addition, only 31 percent of U.S. workers are protected by long term disability insurance. [5] Most consumers rely on their employers for coverage, but in a recent study, when asked what percentage of their salary they would receive if they were to become disabled, nearly 4 in 10 workers (39 percent) did not know. One in 5 (22 percent) appeared to overestimate their coverage, thinking they would receive anywhere from 70 to 100 percent of their current salary, when, with few exceptions, disability insurance policies replace no more than two-thirds of a worker's pre-disability salary. [6] Involuntary unemployment or job loss protection is not typically available at all from an insurance agent or employer. State unemployment insurance programs often do not provide adequate benefits for most consumers to maintain their standard of living, and have term limitations as well.

The Board's 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. At a time when the need for protection is greater than ever, this approach seems in direct conflict with consumers' best interests.

B. Consumers Lack Adequate Insurance

Life Insurance

- Only 44 percent of U.S. households have individual life insurance. Today, 30 percent of households (35 million) have no life insurance coverage, compared to 22 percent of households in 2004. LIMRA. (2010). *Trends in life ownership study.*

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[2] 2009 Credit Insurance Experience Exhibit

[3] Garcia, Jose. (2007, November). *Borrowing to make ends meet – the rapid growth of credit card debt in America.* Dēmos.

[4] Society of Actuaries. (2005, August). *A strategic analysis of the life insurance industry.*

[5] Bureau of Labor Statistics. (2009, March). *National compensation survey.*

[6] LIFE Foundation. (2010, May).

- Half of U.S. households (58 million) say they need more life insurance – the highest level ever. LIMRA. (2010). *Trends in life ownership study.*

- Among households with children under age 18, which arguably have the greatest need for life insurance, 11 million have no coverage. Four in 10 of these households say they would have immediate trouble meeting everyday living expenses if the primary breadwinner died today. Another 3 in 10 would have trouble keeping up with expenses after several months. LIMRA. (2010). *Trends in life ownership study.*

- One in four U.S. households relies only on employer-provided group life insurance to provide financial protection if a wage-earner dies. These households may lose their only life insurance coverage if they become unemployed or have their work hours reduced. In the past year, someone lost their job in 15 percent of U.S. households. LIMRA. (2010). *Trends in life ownership study.*

Disability Insurance

- Only 31 percent of U.S. workers are protected by long term disability insurance. Bureau of Labor Statistics. (2009). *National compensation survey.*

- 62.1 percent of all bankruptcies have a medical cause. The share of bankruptcies attributable to medical problems rose by 50 percent between 2001 and 2007. Himmelstein, D.U., Thorne, D., Warren, E., & Wollhandler, S. (2009). Medical Bankruptcy in the United States 2007: Results of a National Study. *American Journal of Medicine.*

- Evidence suggests that medical disruptions are a major contributor to mortgage default, often striking in combination with other factors. Half of all respondents (49 percent) indicated that their foreclosure was caused in part by a medical problem. Altogether, about 7 in 10 respondents either self-reported a medical cause of foreclosure, or experienced one of these indicia of medical disruptions in the years before foreclosure. Robertson, C. T., Egelhof, R. & Hoke, M. (2008). Get Sick, Get Out: The Medical Causes of Home Mortgage Foreclosures. *Health Matrix*.

- More than a quarter (27 percent) of working Americans say they would have trouble supporting themselves financially “immediately” following a disability that keeps them out of work, while nearly half (49 percent) would reach that point in a month or less. Three out of four (74 percent) would face financial trouble within six months. LIFE Foundation. (2009, May).

- 99 percent of disabilities happen outside of work and are not covered by Workers Compensation. National Safety Council. (2010). *Injury Facts 2010*.

- In 2007, the Social Security Administration denied 65.4 percent of applications for disability benefits at the initial level, and 87.3 percent of claims at the reconsideration level. Stinson, S. (2009, March 25). Social security disability often denied. *Bankrate*. Retrieved from http://www.bankrate.com

Unemployment Insurance

- Personal unemployment insurance is not typically available in the U.S. marketplace from a traditional insurance agent.

- 60 percent of the mortgage defaults this year will be set off primarily by unemployment, up from 29 percent last year. Goodman, P.S. & Healy, J. (2009, May 24). Job losses push safer mortgages to foreclosure. *The New York Times*. Retrieved from http://www.nytimes.com

- While most consumers have insurance for their physical assets, fewer insure their most important asset of all -- their ability to work and earn an income. LIFE Foundation. (2008).

C. Current Economic Conditions Have Contributed to the Problem

- Tens of millions of once-secure middle class families now live paycheck to paycheck, watching as their debts pile up and worrying about whether a pink slip or a bad diagnosis will send them hurtling over an economic cliff. Warren, E. (2009, December 2). America without a middle class. *The Huffington Post*. Retrieved from http://www.huffingtonpost.com

- “…what people need to understand about the medical problem of financial problem connection is that it's really not just one punch. It's a series of punches. About 3/4 of the families who ended up in bankruptcy in the aftermath of a serious medical problem had health insurance at the onset of the illness or accident that ultimately bankrupted them…even families with health insurance are quite vulnerable to a severe economic reversal if somebody in the family gets sick.” Warren, E. (2007, February 9). *Elizabeth Warren on Debt and the Middle Class* [Interview by M. Hinojosa]. Retrieved from http://www.pbs.org

- More than 40 percent of Americans say a major reason they have not bought more life insurance is because they have other financial priorities right now, such as paying off debt or saving for retirement. LIMRA. (2010). *Trends in life ownership study.*

- Twenty-one percent of middle-class families have less than $100 per week ($5,000 per year) remaining after meeting essential living expenses. These families are living from paycheck to paycheck with very little margin of security. Wheary, J., Shapiro, T. M. & Draut, T. (2007, November). *By a thread. The new experience of America’s middle class.* Dēmos.

- More than half of middle-class families have no net financial assets whatsoever—that is, no financial assets or debt levels that exceed their assets. Wheary, J., Shapiro, T. M. & Draut, T. (2007, November). *By a thread. The new experience of America’s middle class.* Dēmos.

- The current recession has taken a toll on family finances and has left millions of Americans with little or no financial cushion. For those who suffer the misfortune of illness or injury, the toll is even greater. …medically indebted households rely more heavily on credit cards to pay their financial obligations…carry higher levels of outstanding credit card debt, have higher rates of interest on their credit cards, and work longer hours and at additional jobs in order to pay off debt. They exhaust savings and imperil their future by drawing against their homes and retirement accounts trying to pay their bills. In spite of their efforts, too many still come up short. Garcia, J. & Rukavina, M. (2010, October). *Sick and in the red*. Dēmos.

- More than one in four Americans now have a FICO credit score below 600, which is considered low. 25.5 percent of the 170 million Americans with active credit accounts have scores of 599 or below, based on data from April 2010 consumer credit reports. The median score is 723. The data also showed that 2.4 million more people have fallen into the lowest FICO categories in the past two years. York, K. (2010, July 25). Average fico score drops below 600. *News and Sentinal.com*. Retrieved from http://www.newsandsentinel.com

D. Diminishing Strength of Historical Distribution System

- Almost 8 in 10 American households currently do not have a personal life insurance agent or broker to turn to and most of them say they never did. LIMRA. (2010). *Trends in life ownership study.*

- Effective distribution has always been a cornerstone of the life insurance business. The average age of an insurance agent has increased from 37 years in 1983 to 52 years in 2003. Due to low replacement during most of these 20 years, the size of the traditional sales force has declined. A large proportion of agents are close to retirement age. Their retirement over the next 10 years can create a serious problem for the industry. Society of Actuaries. (2005, August). *A strategic analysis of the life insurance industry.*

- If the current trends in attrition continue and agents retire in large numbers over the next decade, the life agency force could become so small as to cause a distribution crisis. Unless alternative distribution systems are developed well enough to pick up the slack or agent productivity improves dramatically, compensation would have to increase in order to attract new agents to the sales force. The resulting rise in insurance premiums can further weaken the industry. Society of Actuaries. (2005, August). *A strategic analysis of the life insurance industry.*

- Almost 6 in 10 “Boomer” households prefer to buy life insurance face-to-face. LIMRA. (2010). *Trends in life ownership study.*

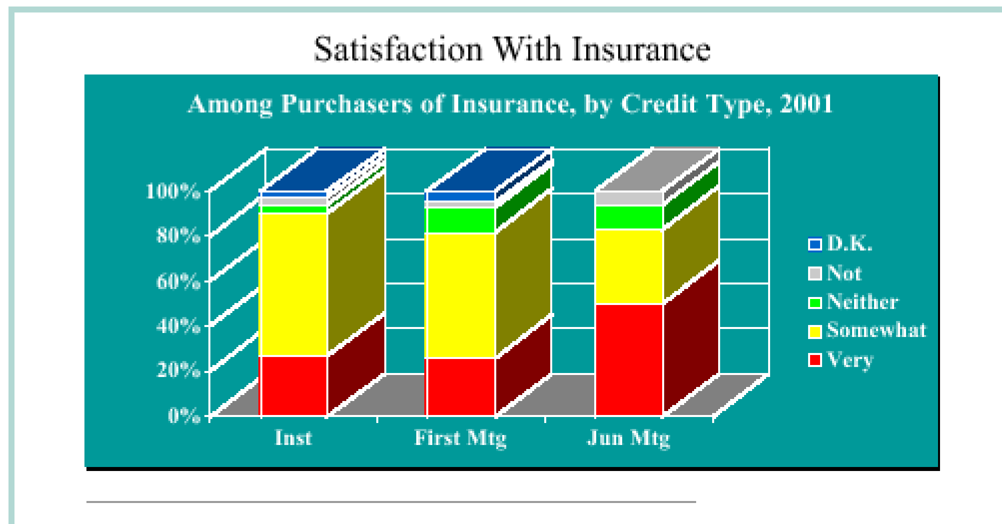
E. Consumers Are Satisfied With Credit Insurance and Debt Protection

Credit Insurance

Several studies have been conducted over the years testing consumer satisfaction with credit insurance, with favorable results. A survey of consumer attitudes reported by the Board affirms historically high satisfaction among those who purchase credit insurance and concludes that credit insurance purchasers believe they would be ill-served by any move to restrict credit insurance as an option when they borrow.

The Survey Research Center of the University of Michigan surveyed 1,006 consumers during September and October 2001 for the Credit Research Center of the McDonough School of Business of Georgetown University using a questionnaire designed by Thomas A. Durkin, a member of the Board's Division of Research and Statistics.

The survey confirmed findings of earlier surveys, with up to 90 percent of credit insurance purchasers responding that they are satisfied with credit insurance and would purchase it again when borrowing, and shows again that consumers receive ample notice that credit insurance is a voluntary option to insure loans when they borrow.



* Bar graphs by Thomas A. Durkin

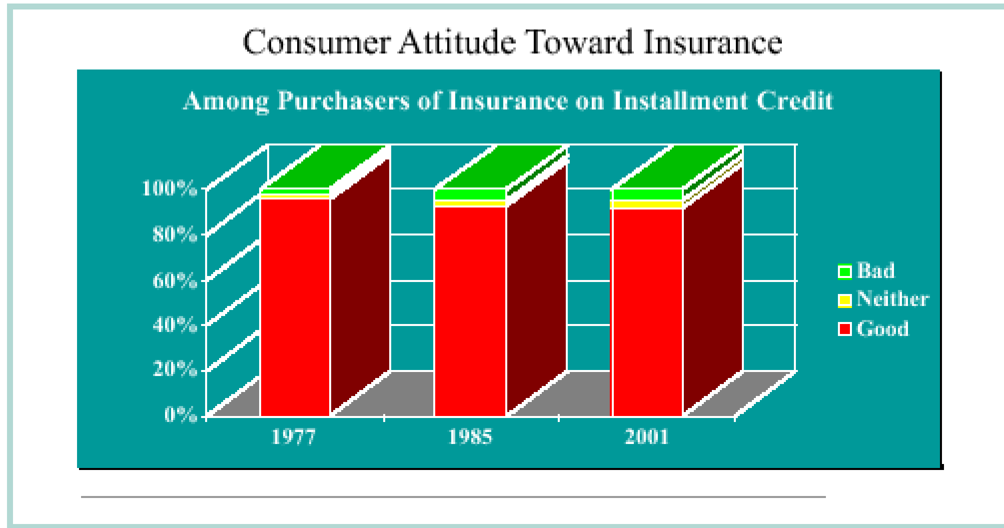
Results and analysis of the survey are reported in an article by Mr. Durkin entitled, "Consumers and Credit Disclosures: Credit Cards and Credit Insurance" [7] that also examines a survey conducted during 2001 concerning consumer attitudes about the use of credit cards and credit disclosures under the FRB's Reg Z governing truth in lending.

Concerning credit insurance, Mr. Durkin concluded, "With respect to credit insurance because the views of users and nonusers seem so divergent, it seems important that the views of users be given sufficient weight in considering public policies in this area. According to the views expressed by many users of credit insurance, eliminating this product by regulation could be disadvantageous to them."

The study confirmed the findings of every study conducted during the past 30 years in which consumer knowledge and attitudes about credit insurance have been tested. Uniformly the studies find that consumers value credit insurance, understand it, received ample notice that selection is voluntary, and said they would purchase this valuable financial protection again when they borrow.

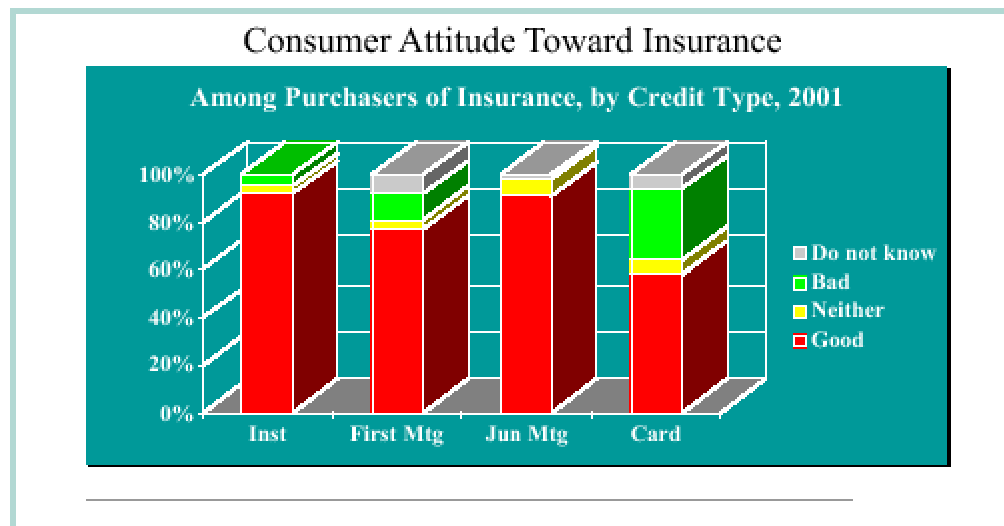
Among surveyed consumers more than 92 percent who purchased credit insurance to protect an installment loan reported a good opinion of the product with 90.4 percent saying they were very or somewhat satisfied. Among home equity borrowers 90.7 percent had a good opinion and 83 percent were very or somewhat satisfied. Among first mortgage borrowers who purchased credit insurance, 77 percent had a good opinion of the insurance and 82 percent said they were very or somewhat satisfied.

[7] Thomas A. Durkin, *Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Federal Reserve Bulletin (2002)



The findings of the study and the conclusions drawn from it in the analysis by Mr. Durkin should be a strong signal to legislators and regulators that credit insurance is an important consumer option and should be preserved in the insurance marketplace because consumers who purchase credit insurance do so knowingly, willingly, and with the expectation that public policymakers will understand its importance for them.

Further, the high satisfaction levels reported by credit insurance purchasers and their willingness to repurchase, including first and second mortgage and home equity borrowers, indicates that consumers who use and value credit insurance make no differentiation and have no concerns about whether they finance the insurance through payment of a single premium or as a monthly charge.

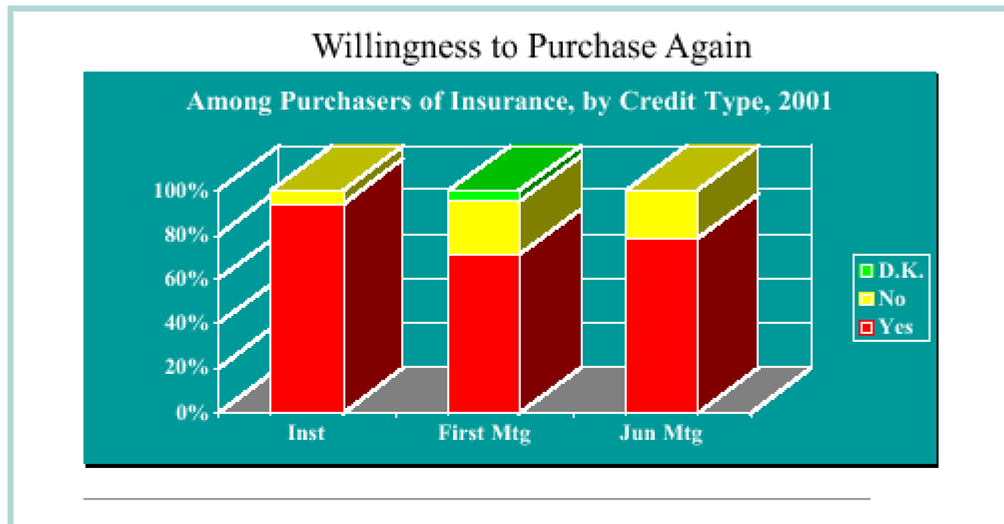


The survey asked respondents if they believed the purchase of credit insurance made any difference in the willingness of creditors to grant credit, a question that was asked in earlier surveys

in 1977 and 1985. Reviewing the responses of consumers Mr. Durkin wrote, "In each of the three surveys, a large majority of both insurance purchasers and non-purchasers believed that purchasing credit insurance was irrelevant to this decision by installment lenders."

His analysis noted that the willingness of consumers who use credit insurance to purchase it again when borrowing "seems to indicate that they feel considerably better about the product than its critics."

A clear majority in all three categories said they would purchase credit insurance again when borrowing, including 94 percent of installment borrowers, almost 78 percent of equity borrowers, and 71 percent of first mortgage insurers.



Previous landmark surveys and studies of consumer attitudes to credit insurance include a 1973 study by the Ohio University College of Business Administration, 1977 survey for the Board, a 1986 study for the Federal Reserve Bank of San Francisco, and 1993 and 2001 studies .[8] Each of these studies has shown that consumers valued the products and wanted to voluntarily purchase them. A large majority of both insurance purchasers and non-purchasers believed that purchasing credit insurance was irrelevant to whether the creditor was willing to grant credit to the borrower.

Even without all of these studies that affirm the value and importance of credit insurance to consumers, the Board would not have to look far to find objective, demonstrable proof that insureds are happy with their purchase of credit insurance coverage. As members of a highly regulated industry, each insurer is required to track and report to state insurance regulators any complaints it receives, regardless of the cause, nature, or even legitimacy of the complaint. These cases are aggregated annually by the National Association of Insurance Commissioners, and provide a clear and objective picture of the performance of the industry as a whole.

[8] *Credit Insurance: Rhetoric and Reality,* Monograph 30, Credit Research Center, Krannert Graduate School of Management, Purdue University, March 1994; *Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Thomas A. Durkin, Division of Research and Statistics, Federal Reserve Bulletin, April 2002; Barron, John M., Ph.D., and Michael E. Staten, PH.D.

During the period from 2005 – 2009, 111,392,414 credit insurance certificates were issued. Of all these 110 million plus policies issued during that five year period, insureds lodged an average of only 533 complaints each year. Put more simply, only 1 complaint was submitted for every 41,814 certificates issued. 1 per 41,814!

It is hard to imagine any other industry – let alone one that has been in existence nearly 100 years – that has a more impressive record of customer satisfaction. Are nearly 42,000 car repairs completed at dealerships each year without a consumer complaint? Or 42,000 meals served at your local fast food restaurant before a customer complains? How about mobile phone calls? Or cable TV service?

This exceptionally low incidence of customer complaints is even more impressive when put in the appropriate context of the insurance industry. The Board's proposed disclosure language asserts that there are "other types of insurance that can give you similar benefits and are often less expensive," so presumably this similar coverage must be at least as favorably received by consumers, correct? Not even close. Over the same period, the NAIC reports that individual life insurance complaints were received at a rate 2.7 times that of complaints made on credit insurance. Nearly three times greater! Similar benefits? At least not in terms of customer satisfaction.

Debt Protection

Although an industry-wide study has not yet been conducted for debt cancellation or debt suspension agreements, financial institutions often conduct their own surveys specific to their programs, which yield similarly positive results. Since 2005, one large regional bank has been surveying its debt cancellation customers and asks the following questions (with the corresponding results through August 2010):

- How important was the benefit to you and your customers financially?

Critically important (wouldn't have gotten by without it)	67.6%
Important (would have gotten by without it, but it would have been difficult)	29.7%
Not important (would have been okay with or without it)	2.7%

- How valuable was the benefit to you in relation to the monthly fee paid for the product?

Very	91.9%
Somewhat	5.4%
Not at all	2.7%

The survey also asks how the benefits helped the customers and their families. Some actual responses include "I wouldn't have gotten by without it," "Kept us from going bankrupt," "We would have been out of a house," and "It has enabled me to remain in my home during a very difficult time." What would have happened to these customers financially had the protection not been in place?

V. Summary

Harvard Law Professor Christopher Tarver Robertson's study[9] on the medical causes of home mortgage foreclosures concludes with this recommendation – "One potential response is to create a public or private insurance system to prevent the problem. Such insurance could pay the mortgage during a verifiable medical crisis in the borrowers' household, allowing those with only a temporary problem to overcome it without losing their homes in the process." Credit insurance and debt protection programs have provided precisely this type of benefit to consumers for many years.

In study after study, consumers have expressed a high level of satisfaction with credit insurance and debt protection programs. While we are certainly open to suggestions for modifying disclosures so the features and benefits of the products and programs are as understandable as possible, the proposed disclosures in their current form seem intended to discourage, even prevent, consumers from electing coverage. Now more than ever, consumers are experiencing financial concerns such as increasing debt and medical costs, lower home values and savings, and job insecurity. Many consumers have no insurance at all, and even more still are underinsured. These factors combined create an environment in which the benefits provided by credit insurance and debt protection programs may be more vital than ever; and one in which the bias against these programs as evidenced by the proposed disclosures is truly confounding.

We have endeavored to correct the record that the Board developed in the Proposed Regulation and provide a better understanding of the value that these products offer to consumers in this letter. However, it is our strong view that the Board's understanding as to the value that these products offer to consumers is lacking to such a great extent, that the Board must engage in further study before attempting to regulate disclosure with regard to such products. As such, we respectfully request the Board to withdraw the Proposed Regulation and commence with new studies designed to fully understand the value of these products. We would be happy to assist the Board with future studies in any way that we can.

[9] Robertson, C.T., Egelhof, R. & Hoke, M. (2008). Get Sick, Get Out: The Medical Causes of Home Mortgage Foreclosures. *Health Matrix*.

Should you desire additional information, please contact our counsel – Tim McTaggart or Mike Callaghan of Pepper Hamilton, LLP at 202-220-1210 or 215-981-4648, respectively.

Very truly yours,

Scott J. Cipinko
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Consumer Credit Industry Association
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cc: Ben S. Bernanke, Chairman of the Board of Governors of the Federal Reserve System
Timothy F. Geithner, Secretary of the Treasury
Elizabeth A. Duke, Member of the Board of Governors of the Federal Reserve System

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December 22, 2010 **CCIA COMMENT LETTER 2 of 3**

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: The Federal Reserve Board proposals to revise disclosures - Docket No R-1390
Discussion of Mortgage Products under the Proposed Rule
Comment Letter 2 of 3

Dear Secretary Johnson;

1. Who we are

The Consumer Credit Industry Association (CCIA) is a national trade association of insurance companies and other financial service providers selling or servicing consumer credit insurance, consumer credit related lines of insurance and other consumer products and services typically provided in connection with consumer credit transactions whether or not insurance. Our member insurance companies account for more than 80% of the national volume related to these products. Since incorporation in 1951 as an Illinois Not-For-Profit corporation, CCIA has been dedicated to preserving and enhancing the availability, utility, and integrity of insurance and insurance related products delivered through financial institutions or in connection with financial transactions.

2. Why we are writing

CCIA's interest in the Proposed Rule in this letter addresses provisions directed at credit insurance, creditor-placed insurance, and debt cancellation and debt suspension products as they apply to mortgage loans.

The Federal Reserve Board (the "Board") has issued a proposal that purports to revise the rules for and content of the disclosure required for closed-end and open-end consumer loans secured by real property or a consumer's dwelling with the goal of improving the effectiveness of the disclosures creditors provide to consumers. CCIA supports the goal of effective disclosures but concludes that many of the proposed amendments are not

improvements and could be misleading. The CCIA requests the Board limit the reach of their proposals to closed end loans secured by the consumer's primary dwelling consistent with their initially stated purpose and for the reasons noted below. CCIA addresses only the issue of loans secured by the consumer's primary residence in this comment letter. CCIA will submit comments in connection with the many other concerns raised by the Proposed Rule R-1390 separately.[1]

3. Scope Of The Rule Is Too Broad

CCIA believes that the Board is unnecessarily expanding the scope of consumer protections to any loan which may have any "real property" as a security component. The Board introduces the proposed Rule R-1390 "as part of a comprehensive review of TILA's rules for home-secured credit."[2] Yet, the proposal contains revisions to several rules that would apply to any "closed-end mortgage loan secured by real property or a dwelling", for example, determining when a modification of an existing loan is a new transaction which requires new disclosures. The Board's expanded definition can include, e.g., vacant land and houses that consumers use primarily as rental property.

We do not object to providing clear and objective disclosures to consumers in conformance with the requirements and intent of the Truth in Lending Act (TILA). However the Board's proposed expansion of disclosures beyond the mandates of TILA and to any loan that might include real property as collateral is broad and sweeping. The result may be the stifling of credit for consumers who have an asset such as a second or other real property as additional security for a consumer loan. Consumers who are shopping for a mortgage to purchase a primary residence require a different level of enhanced disclosure than those who have the luxury of utilizing real property which may not be their primary residence as collateral for a consumer loan. The Board and Congress have enacted many such protections for consumers seeking a mortgage to finance or re-finance their primary residence. To impose the same level of scrutiny for a loan that merely happens to include real property as collateral can cause a chilling effect on lending. We would ask the Board to review its intended purpose of this Rule to determine whether this broad purpose is advisable or necessary.

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[1] We refer you to the comment letters submitted by the CCIA dated December 22, 2010, regarding "The Federal Reserve Board Proposals to Revise Disclosures – Docket No. R-1390, Discussion of Consumer Value of Debt Protection and Credit Insurance (Comment Letter 1 of 3) and "The Federal Reserve Board Proposed Rule Docket No. R-1390, Credit Insurance and Debt Protection Product Issues (Comment Letter 3 of 3)."

[2] Federal Reserve Board Proposed Rule Regulation Z Docket Number R-1390; Summary, Page 1.

4. **Maintaining a Consistent Definition of Dwelling and Conflict With Recent Legislation**

We refer the Board to the Dodd – Frank Wall Street Reform Act Title XIV (the "ACT")[4] The Act consistently limits its scope to real property that contains a dwelling by using a clear and concise definition of "Residential Mortgage Loan"[5] To avoid complication and potential conflict, we request that the Board review this definition and consider if such clarity can be of assistance in the Board's proposed Rules.

There are also many definitions throughout the Federal Code of "dwelling" and "residence" as can be applied to the Board's concerns in addressing mortgage transactions. We believe that these definitions, although not identical, are consistent in their theme of addressing the interest of the consumer's primary residence and dwelling, not any and all real estate that may be used to secure a loan (such as vacant land).

Consider the following definitions:

§ 1. (v) The term "dwelling" means a residential structure or mobile home which contains one to four family housing units, or individual units of condominiums or cooperatives.

(w) The term "residential mortgage transaction" means a transaction in which a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or equivalent consensual security interest is created or retained against the consumer's dwelling to finance the acquisition or initial construction of such dwelling.[6]

or

(b) *Dwelling* means any building, structure, or portion thereof which is occupied as, or designed or intended for occupancy as, a residence by one or more families, and any vacant land which is offered for sale or lease for the construction or location thereon of any such building, structure, or portion thereof.[7]

or

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[4] Section 1414-Additional Standards and Requirements:
(d) Single Premium Credit Insurance Prohibited. – No creditor may finance directly or indirectly in connection with any residential mortgage loan or with any extension of credit under an open end consumer credit plan secured by the principal dwelling of the consumer, any credit life, credit disability, credit unemployment, or other accident, loss of income, life or health insurance, or any payments directly or indirectly for any debt cancellation or suspension agreement or contract, except that – 1) insurance premiums or debt cancellation or suspension fees calculated and paid in full on a monthly basis shall not be considered financed by the creditor; and this subsection shall not apply to credit unemployment insurance for which the unemployment insurance premiums are reasonable, the creditor receives no direct or indirect compensation in connection with the unemployment insurance premiums, and the unemployment insurance premiums are paid pursuant to another insurance contract and are not paid to an affiliate of the creditor.

[5] Dodd Frank Wall Street Reform and Consumer Protection Act – Subtitle A – Residential Mortgage Loan Origination Standards Section 1401 amends 15 USC 1602 (cc)(5) as follows: "(5) RESIDENTIAL MORTGAGE LOAN. – The term 'residential mortgage loan' means any consumer credit transaction that is secured by a mortgage, deed of trust or other equivalent consensual security interest on a dwelling or on a residential real property that includes a dwelling other than a consumer credit transaction under an open end credit plan, or for purposes of sections 129B and 129C…"

[6] CONSUMER CREDIT PROTECTION ACT Section 103 (v) and (w).
[Codified to 15 U.S.C. 1602)

[7] (12 CFR Section 338.2(b) The Fair Housing Act; Definitions applicable to Subpart A of this part.)

“2(a)(24) Residential mortgage transaction. [8]

3. *Principal dwelling.* A consumer can only have *one* principal dwelling at a time. Thus, a vacation or other second home would not be a principal dwelling. However, if a consumer buys or builds a new dwelling that will become the consumer's principal dwelling within a year or upon the completion of construction, the new dwelling is considered the principal dwelling for purposes of applying this definition to a particular transaction. See the commentary to §§ 226.15(a) and 226.23(a). “

or

“ (19) Dwelling means a residential structure that contains one to four units, whether or not that structure is attached to real property. The term includes an individual condominium unit, cooperative unit, mobile home, and trailer, if it is used as a residence.”[9]

or

2(a)(19) Dwelling .

“ 1. Scope. A dwelling need not be the consumer's principal residence to fit the definition, and thus a vacation or second home could be a dwelling. However, for purposes of the definition of residential mortgage transaction and the right to rescind, a dwelling must be the principal residence of the consumer. (See the commentary to §§226.2 (a)(24), 226.15, and 226.23.)

2. Use as a residence. Mobile homes, boats, and trailers are dwellings if they are in fact used as residences, just as are condominium and cooperative units. Recreational vehicles, campers, and the like not used as residences are not dwellings.”[10]

or

‘‘(5) RESIDENTIAL MORTGAGE LOAN.—The term ‘residential mortgage loan’ means any consumer credit transaction that is secured by a mortgage, deed of trust, or other equivalent consensual security interest on a dwelling or on

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[8] FEDERAL RESERVE BOARD'S TRUTH IN LENDING OFFICIAL STAFF COMMENTARY TO REGULATION Z
CODIFICATION: Official Staff Commentary to Regulation Z codified to 12 C.F.R. Part 226.
AUTHORITY: 12 U.S.C. 3806, 15 U.S.C. 1604 and 1637(c)(5).

[9] Reg Z, 12 CFR 226.2(a)(19)

[10] Official Commentary: 2(a)(19) Dwelling .

residential real property that includes a dwelling, other than a consumer credit transaction under an open end credit plan or, for purposes of sections 129B and 129C and section 128(a) (16), (17), (18), and (19), and sections 128(f) and 130(k), and any regulations promulgated thereunder, an extension of credit relating to a plan described in section 101(53D) of title 11 United States Code."[11]

Accordingly, we find the term as used in the proposed rule inconsistent and unnecessary.

5. TRANSACTION COVERAGE RATE

The Board has proposed a new definition of "higher-priced mortgage loan" to cover all of the subprime market and generally to exclude the prime market. Based on public comment received during the 2009 proposal, as well as the Board's own analysis, the Board believes that the test should be revised, especially in light of the Board's proposal of an all-inclusive APR.

In response to this concern, the Board proposes an artificial calculation called a "transaction coverage rate". The Board would use this new calculation to replace the APR as the metric a creditor uses to compare to the average prime offer rate to determine when a transaction is a higher-priced mortgage loan under TILA. The "transaction coverage rate" would not be disclosed to the consumer. The finance charge used to calculate the transaction coverage rate would exclude charges for voluntary credit insurance and debt cancellation products while including points and other origination charges the creditor or broker retain. This new metric is then compared to the average prime offer rate to determine if a loan is a higher-priced mortgage loan under TILA. The APR is not used. Using this new metric will result in about the same number of loans being classified as higher-priced as are currently classified under TILA. The consumer never sees the artificial calculation only the all inclusive high APR. The consumer would still believe that they have a high cost loan. This will cause unnecessary confusion for the consumer and difficult customer relations situations for the creditor. This is a desirable result however, we still have concerns with the transaction coverage rate metric.

First, the consumer never sees the artificial calculation, only the all inclusive high APR. This will cause confusion and chaos because the creditor is making a decision based on information that consumers are not privy to. Additionally, consumers will not know their rights, because they will have no way of knowing whether the loan should or should

[11] Dodd Frank Wall Street Reform and Consumer Protection Act - Subtitle A – Residential Mortgage Loan Origination Standards Section 1401 amends 15 USC 1602 (cc) (5) .

not be treated as a higher-priced mortgage loan. For example: consumers could see the all-inclusive APR and believe that they have high cost loans when they do not. Or, a consumer could have a high-cost home loan, but the creditor does not treat it as such, and the consumer will have no way of knowing that. Finally, if the consumer has shopped around and seen APRs comparable to the one he has received from one Bank, but other consumers received high-cost disclosures and features, they will not understand why they were treated differently. This inability to compare offers from different lenders defeats the purpose of TILA. All of this will cause unnecessary confusion for the consumer and difficult customer relations, as well as unnecessary litigation exposure for the creditor. The Board is clouding the cost of credit rather than making it more transparent. This proposal will force creditors to calculate whether a consumer has a higher-priced mortgage loan behind the scenes, using a metric that is hidden from the consumer. And even if a creditor chose to disclose the transaction coverage rate to the consumer, it will be very difficult to explain, difficult for the consumer to understand, and just one more figure for consumers to deal with.

Next, the Board's proposed change to calculate and compare the transaction coverage rate will require an additional calculation, and an additional layer of information for the creditor to prepare and track. It is simply an additional burden on the creditor, with no benefit to the consumer.

The Board is aware that state predatory lending laws do not recognize this artificial calculation. Therefore, any comparisons at a state level would still classify these loans as high cost loans. In its proposal the Board states "The Board believes that those authorities(state) are best positioned to make any adjustments to coverage they deem appropriate." In practice this will result in an uneven landscape for enforcement while individual states make a determination of which laws and/or regulations need to be changed. With more than 30 states having predatory lending laws, some of which use APR as a measurement, this will be difficult to work out and could take a significant period of time. In the interim, financial institutions will be left with regulatory uncertainty which often results in withdrawal from the market. In today's economy we do not need more institutions withdrawing from the mortgage market. It will also result in state-chartered or state–licensed lenders having to do two separate calculations and determine which set of disclosures apply; in some situations, it may result in the consumer receiving two different sets of disclosures for the same loan. This does not make sense. It also makes it difficult, if not impossible, for a consumer to compare loans between state lenders and federal lenders, which, again, defeats the purpose of TILA.

The need to propose a transaction coverage rate metric is yet more evidence that including all fees into the APR causes more problems than it solves. The best solution for both creditors and consumers is to continue to exclude third-party fees from the APR, and use interest rate plus points to determine whether a loan is a high-cost mortgage loan.

We respectfully request that the Board abandon any such artificial calculation and keep the current rules in place regarding which fees can and cannot be excluded from the finance charge, and how to determine whether a loan is a high-priced mortgage loan.

6. Inclusion Of Monthly Premiums and Fees In the APR is Confusing and Incorrect

A. Credit Protection Premiums and Fees. First, the Board proposes to include the cost of credit protection products in the APR. However, the Board does not consider that credit protection charges calculated and paid on a monthly basis do not increase the Amount Financed, and therefore have not been seen as objectionable in the eyes of Congress and state and federal regulators. These monthly pay products are typically monthly renewable term products, meaning that they have a term of only one month and are renewable each month as long as the premium/fee is paid. Including monthly pay product premiums and fees into the APR would therefore skew and distort the true cost of credit.

The OCC Debt Protection rules prohibit single-fee and single-premium products from being financed as part of closed-end mortgage loans, because doing so increases the amount financed and thus the overall cost of the loan. However, the rules have always excluded monthly pay products from this prohibition, precisely because such products do not increase the amount financed. Many states have had identical laws on their books for years. Since 2000, approximately 33 states have passed consumer protection legislation addressing the financing of single premium credit insurance products issued in conjunction with mortgage lending. This state legislation typically provides that premiums or other charges calculated and paid on a monthly basis are not considered financed. For example, see Illinois 815 ILCS 137/40 and 205 ILCS 635/5-15; Indiana 24-9-3-1, New Jersey 46:10B-25(a); North Carolina: 24-10.2 (b); New Mexico 58-21A-4; New York 6-L(2)(h); Ohio 1345.031 (B)(11); and South Carolina 37-23-70 (B). And most recently, Congress recognized this under the Dodd-Frank Act when in Title 14 it excepted monthly pay products from the prohibition against financing credit protection products into closed-end mortgage loans.

CCIA requests the proposed rule specifically exclude voluntary credit protection premiums and fees from the calculation of the finance charge for all closed-end transactions secured by real property or a dwelling. To be

consistent with the exceptions allowed under the Dodd-Frank Act, monthly pay products should be explicitly excluded.

To exclude the monthly pay products, The Board should consider the following revision to proposed 226.4(g):

> (g) Special rule; closed-end mortgage transactions. Paragraphs (a)(2) and (c) through (e) of this section, other than §§ 226.4(c)(2), 226.4(c)(5) and 226.4(d)(2), do not apply to closed-end transactions secured by real property or a dwelling. *However, the prohibition against excluding charges for credit insurance and debt cancellation and debt suspension products does not apply to such charges that are charged and collected on a monthly basis.*

This language will make it clear that monthly pay products can be excluded from the finance charge.

B. Consumers Do Not Understand the APR. Next, as the Board has consistently discovered by its own consumer research, consumers simply do not understand the APR. The vast majority of consumers believe the APR to be the interest rate. The Board recognized this in its recent final rules amending the credit card and open-end lending rules when it eliminated the requirement to disclose the effective APR on periodic statements. In the Supplementary Information to the credit card rules published in the Federal Register on January 29, 2009, the Board said, "[w]ith regard to the effective APR [on periodic statements], testing overwhelmingly showed that few consumers understood the disclosure…" Based on this research, the Board has changed the rules to now require that the terms "interest rate" and "fees" be used, rather than APR and finance charge.

The same principle applies to the APR in closed-end disclosures. Consumers do not understand the APR any better when they are shopping for credit than when it appears on their credit card statements. The Board has already recognized this more than once. First, in its recent final rules for private education loans, it de-emphasized the APR and instead emphasized the interest rate. And in the first proposal regarding this rulemaking in 2009, the Board once again conducted consumer testing, and reports the results as follows:

> Participants in the Board's consumer testing generally did not understand the APR and often mistook it for the loan's interest rate. The Board tested alternative descriptive statements and formats for the APR, but consumers continued to be confused by the APR. For example, some participants thought the APR reflected future adjustments to the interest rate, or the maximum possible interest rate for a variable rate loan. A few participants recognized that the APR differed from the interest rate, but were unable to articulate the reason. In addition, when presented with two hypothetical loan offers, participants did not use the APR to compare and choose between the offers. Instead, participants chose a loan based on one or more of the following pieces of information: the interest rate, monthly payment, and settlement costs. *Federal Register Vol. 74 at 43296-43297.*

Despite this overwhelming indictment of the APR, the Board goes on to state that, based on this research, it will retain the APR disclosure. With all due respect, we are mystified by the Board's logic. This is especially so in light of the fact that, when the Board eliminated the effective APR requirement for credit card statements, it did so because it recognized that additional attempts at explaining the effective APR would simply be fruitless. The Board continues to prove that there is no practical way of getting consumers to understand the APR. We ask that credit protection premiums and fees not be included in the APR.

7. The Board Does Not Have Authority to Include the Premiums and Fees in the Finance Charge and APR.

The Truth-in-Lending Act, 15 USC 106, clearly sets forth the fees and charges that are to be excluded from the finance charge and APR. This includes credit insurance at subsection (b):

> (b) Life, accident, or health insurance premiums included in finance charge.
>
> Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charges **unless:**
>
> **(1)** the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and
>
> **(2)** in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

This sets forth the clear, black letter intent of Congress to exclude credit insurance premiums from the APR if the above requirements are met. The Board has rightfully extended this same right to debt cancellation and debt suspension products, as they are substantially similar products.

Section 105(a) of TILA generally authorizes the Board to make adjustments and exceptions to TILA to "effectuate the statute's purposes, to prevent circumvention or evasion of the statute, or to facilitate compliance with the statute". 15 U.S.C. 1601(a), 1604(a). The Board does not, however, have the legal authority to blatantly contradict the plain language of TILA. We respectfully submit that incorporating into Reg Z the exact opposite of what TILA sets forth goes beyond "adjustments and exceptions" to the statute. If an all-inclusive approach to the APR is to be effectuated, it should be effectuated by Congress' amendment of the statute. By the Board's own admission, it has encouraged Congress to adopt such an approach, and Congress has declined to do so. The Board should not now be

doing via rulemaking what it could not accomplish by lobbying Congress. This goes beyond the Board's exemption and exception authority.

8. Conflict with Usury Provisions

Including the cost of voluntary credit insurance and debt protection as a finance charge will negatively impact creditors' usury rate calculations. As the Board knows, Regulation Z currently allows a creditor to exclude credit insurance premiums and debt protection fees for the finance charge if the creditor meets certain conditions. If not, the creditor must include the fee in the finance charge. In determining what is or is not included in a usury calculation many agencies and states look to the Board and Regulation Z for guidance on the issue and follow the definition of finance charge set forth in Regulation Z. Therefore, if the Board requires inclusion of credit insurance premiums and debt protection fees as finance charges, the creditor would need to take the costs into account in calculating the rate for purposes of the usury provisions.

Credit insurance and debt protection products protect borrowers' assets, savings and credit ratings. To now require that creditors include the premium and fees could severely curtail credit opportunities for borrowers during the midst of a credit crunch. By including these premiums and fees, Board staff would reduce the incentive for creditors to offer these products, thereby hurting borrowers who need access to credit and need adequate insurance. They also reduce a creditor's risk by protecting a creditor's loans from delinquency, default or foreclosure and provide creditors with another source of non-interest income.

We strongly encourage Board staff to continue to allow creditors to exclude the premiums and fees from the finance charge.

9. CONCLUSION

For the reasons discussed in this letter, the only appropriate action for the Board at this time is to withdraw the Proposed Regulation. The record cries out for the Board to better understand the ramifications involved with the Proposed Regulation. We believe that the Board must conduct further studies regarding the unintended consequences of the Proposed Regulation, as well as the Proposed Regulation's inconsistencies with the Dodd-Frank Act. Our letter is intended to bring these issues to the attention of the Board, but we respectfully submit that the Board must engage in further studies of these issues before it continues with the rulemaking process.

Thank you for this opportunity to provide comment. We would be happy to continue to work with you and answer any questions. We look forward to providing clarification and details as appropriate. Should you desire additional information, please contact our counsel – Tim McTaggart or Mike Callaghan of Pepper Hamilton, LLP at 202-220-1210 or 215-981-4648, respectively.

Very truly yours,

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cc: Ben S. Bernanke, Chairman of the Board of Governors of the Federal Reserve System
Timothy F. Geithner, Secretary of the Treasury
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December 22, 2010 **CCIA Comment Letter 3 of 3**

Jennifer J. Johnson
Secretary, Board of Governors of the-Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: The Federal Reserve Board Proposed Rule Docket R-1390
Discussion of Credit Insurance And Debt Protection Products under the Proposed Rule
Comment Letter 3 of 3[1]

Dear Secretary Johnson:

I. Who We Are

The Consumer Credit Industry Association (CCIA) is a national trade association of insurance companies and other financial service providers selling or servicing consumer credit insurance, consumer credit related lines of insurance and other consumer products and services typically provided in connection with consumer credit transactions whether or not insurance. Our member insurance companies account for more than 80% of the national volume related to these products. Since incorporation in 1951 as an Illinois Not-For-Profit corporation, CCIA has been dedicated to preserving and enhancing the availability, utility, and integrity of insurance and insurance related products delivered through financial institutions or in connection with financial transactions.

II. What We Are Interested In

CCIA's interest in Regulation Z pertains to provisions directed at: 1) disclosures relating to credit insurance, creditor-placed insurance, and debt cancellation and suspension products; and 2) the inclusion of premiums and fees as finance charges in the calculation of the APR.

The Federal Reserve Board (the "Board") has issued a proposal to revise the rules for and content of the disclosures required for closed-end and open-end consumer loans with their stated goal of improving the effectiveness of the disclosures creditors provide to consumers. CCIA **supports** the goal of effective disclosures, but concludes that

[1] We refer you to two additional comment letters submitted by the CCIA both also dated December 22, regarding "The Federal Reserve Board Proposals to Revise Disclosures – Docket No. R-1390, Discussion of Consumer Value of Debt Protection and Credit Insurance (Comment Letter 1 of 3)" and "The Federal Reserve Board Proposals to Revise Disclosures – Docket No. R-1390, Mortgage Issues under the Rule (Comment Letter 2 of 3)."

many of the proposed amendments are not improvements and are misleading. CCIA **opposes** the Board's proposed inclusion of the credit insurance premium or debt suspension or debt cancellation fees as a finance charge used in the calculation of the APR and the proposed disclosure created by the Board for the reasons stated below.

The Board refers consumers to a Federal website which is yet to be created. The Industry would be happy to assist the Board in creating objective, factual and educational materials, describing the products in objective terms to assist consumers' educated choices.

Consumer groups rely on generalities and rhetoric to criticize consumer protection products and totally ignore the facts. A major concern of CCIA is that this bias and rhetoric may be built into such a website if the person or persons who developed the onerous disclosures in the proposed regulation are involved in the development of such a website. As an alternative, CCIA suggests that the proposed rule be amended to require the Board to list industry websites, such as that of the CCIA or other industry associations, as other sources of helpful information. The government does not have all of the answers.

III. What Are The Products

Consumer credit insurance is an insurance product regulated by the state departments of insurance in all 50 states by regulation and/or statute. Debt protection products are amendments to loan agreements regulated by the OCC, OTS and/or the NCUA. Each product is specifically tailored to the loan agreement to waive or forgive the consumer's loan upon the occurrence of the covered contingency (typically death, disability or involuntary unemployment). These products help consumers meet their loan obligations in the case of contingencies like those listed which are known to cause loan default or bankruptcy. The Truth in Lending laws and Regulation Z have provided lenders required disclosures for these products for the last forty (40) years (See Appendix 1 attached).

We have included for the Board, copies of the disclosure requirements published by the OCC for federal financial institutions offering debt cancellation or debt suspension coverage (See Appendix 2 attached). These requirements have been endorsed by the NCUA and several states as best practices for offering debt cancellation and debt suspension products. These requirements differ from those proposed by the Board. It will not be possible for institutions currently following the OCC requirements to comply with those proposed by the Board. We urge the Board to review the existing regulatory requirements prior to imposing their proposed rule. Additionally, we believe it will be imperative for the Board to work with the OCC to coordinate the disclosures, calculations and any other requirements.

The Board confuses an insurance product with a financial institution contractual obligation in 'lumping' the credit insurance and debt cancellation or debt suspension products into one definition of "credit protection products". Debt protection products are not insurance products. They are contractual obligations between the financial institution and the borrower. They are regulated by the OCC and are part of the lending agreement. As described more fully in this letter, the Board's proposal to lump debt protection products and credit insurance in one term is misleading and factually inaccurate.

IV. Consumers Value The Products

The implication that credit insurance and debt protection products and programs provide little or no value to consumers at best, or are detrimental to them at worst, could not be further from the truth. Credit insurance and debt protection programs are designed to provide a 'bridge over troubled water' for borrowers should the

unexpected occur – loss of life, sickness or injury, involuntary unemployment, or other unforeseen events. These programs help cancel or suspend debt, make monthly payments or pay off the loan, keeping customers current with their loan payments and ensuring they have one less thing to worry about during a time typically fraught with emotional and economic stress. In 2009, over $2 billion in benefits were provided to consumers from these programs.[3]

The economic security of American households has eroded in the last decade. Many low to middle-income households have experienced a growing gap between their incomes and their day-to-day costs of living, resulting in decreased savings, rising levels of debt, and widespread economic instability. Since the year 2000, many households have attempted to cope with this financial imbalance by relying on credit cards to cover basic expenses not met by their earnings. Cashed-out home equity - $1.2 trillion over the last six years – was used to pay down those debts and to cover other costs of living, creating a situation of financial fragility for many consumers. [4]

The current economic climate, coupled with the decline of the traditional insurance agent distribution system [5], has resulted in ownership of individual life insurance falling to a recent 50 year low. Today, 30 percent of households (35 million) have no life insurance coverage compared with 22 percent of households in 2004. In addition, only 31 percent of U.S. workers are protected by long term disability insurance. [6] Most consumers rely on their employers for coverage, but in a recent study, when asked what percentage of their salary they would receive if they were to become disabled, nearly 4 in 10 workers (39 percent) did not know. One in 5 (22 percent) appeared to overestimate their coverage, thinking they would receive anywhere from 70 to 100 percent of their current salary, when, with few exceptions, disability insurance policies replace no more than two-thirds of a worker's pre-disability salary. [7] Involuntary unemployment or job loss protection is not typically available at all from an insurance agent or employer. State unemployment insurance programs often do not provide adequate benefits for most consumers to maintain their standard of living, and have term limitations as well.

The Board's 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. At a time when the need for protection is greater than ever, this approach seems in direct conflict with the consumer's best interest.

Several studies have been conducted over the years testing consumer satisfaction with credit insurance, with favorable results. The Survey Research Center of the University of Michigan surveyed 1,006 consumers during September and October of 2001 for the Credit Research Center of the McDonough School of Business of Georgetown University using a questionnaire designed by Thomas A. Durkin, a member of the Board's Division of Research and Statistics.

The survey confirmed findings of earlier surveys, with up to 90 percent of credit insurance purchasers responding that they were satisfied with credit insurance and would purchase it again when borrowing, and shows again that consumers receive ample notice that credit insurance is a voluntary option to insure loans when they borrow.

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[3] 2009 Credit Insurance Experience Exhibit
[4] Garcia, Jose. (2007, November). *Borrowing to make ends meet - the rapid growth of credit card debt in America.* Dēmos.
[5] Society of Actuaries. (2005, August). *A strategic analysis of the life insurance industry.*
[6] Bureau of Labor Statistics. (2009, March). *National compensation survey.*
[7] LIFE Foundation. (2010, May).

Results and analysis of the survey are reported in an article by Mr. Durkin entitled, "Consumers and Credit Disclosures: Credit Cards and Credit Insurance" [8] that also examines a survey conducted during 2001 concerning consumer attitudes about the use of credit cards and credit disclosures under the Board's Regulation Z governing truth in lending.

Concerning credit insurance, Mr. Durkin concluded, "With respect to credit insurance because the views of users and nonusers seem so divergent, it seems important that the views of users be given sufficient weight in considering public policies in this area. According to the views expressed by many users of credit insurance, eliminating this product by regulation could be disadvantageous to them."

Previous landmark surveys and studies of consumer attitudes to credit insurance include a 1973 study by the Ohio University College of Business Administration, 1977 and 1978 surveys for the Board, a 1986 study for the Federal Reserve Bank of San Francisco, and a 1993 study by Purdue University.

Although an industry-wide study has not yet been conducted for debt cancellation or debt suspension agreements, financial institutions often conduct their own surveys specific to their programs, which yield similarly positive results. Since 2005, one large regional bank (over $80 billion in assets) has been surveying its debt cancellation customers and asks the following questions (results through August 2010):

- How important was the benefit to you and your customers financially?

Critically important (wouldn’t have gotten by without it)	67.6%
Important (would have gotten by without it, but it would have been difficult)	29.7%
Not important (would have been okay with or without it)	2.7%

- How valuable was the benefit to you in relation to the monthly fee paid for the product?

Very	91.9%
Somewhat	5.4%
Not at all	2.7%

The survey also asks how the benefits helped the customers and their families. Some actual responses include “I wouldn't have gotten by without it,” “Kept us from going bankrupt,” “We would have been out of a house,” and “It has enabled me to remain in my home during a very difficult time.” What would have happened to these customers financially had the protection not been in place?

Harvard Law Professor Christopher Tarver Robertson’s study [9] on the medical causes of home mortgage foreclosures concludes with this recommendation – “One potential response is to create a public or private insurance system to prevent the problem. Such insurance could pay the mortgage during a verifiable medical crisis in the borrowers’ household, allowing those with only a temporary problem to overcome it without losing their homes in the process.” Credit insurance and debt protection programs have provided precisely this type of benefit to consumers for many years.

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[8] Thomas A. Durkin, *Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Federal Reserve Bulletin (2002)

[9] Robertson, C.T., Egelhof, R. & Hoke, M. (2008). Get Sick, Get Out: The Medical Causes of Home Mortgage Foreclosures. *Health Matrix*.

In study after study, consumers have expressed a high level of satisfaction with credit insurance and debt protection programs. While we are certainly open to suggestions for modifying disclosures so the features and benefits of the products and programs are as understandable as they can be, the proposed disclosures in their current form seem intended to discourage, even prevent, consumers from electing coverage. Now more than ever, many consumers are experiencing financial concerns such as increasing debt and medical costs, lower home values and savings, and job insecurity. Many consumers have no insurance at all, and even more still are underinsured. These factors combined create an environment in which the benefits provided by credit insurance and debt protection programs may be more vital than ever; and one in which the bias against these programs as evidenced by the proposed disclosures is truly confounding.

V. Legal Issues

A. Violation of Law

Currently the Truth in Lending Law ("TILA") allows for insurance premiums and debt cancellation and debt suspension fees to be excluded from the finance charge in the calculation of the APR so long as these three steps are followed:

> (1) The coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit;
>
> (2) This fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and
>
> (3) In order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof. (15 U.S.C. 1605(b))

The Truth-in-Lending Act, Section 105(a), generally authorizes the Board to make adjustments and exceptions to TILA to effectuate the statute's purposes, to prevent circumvention or evasion of the statute, or to facilitate compliance with the statute. 15 U.S.C. 1601(a), 1604(a). The Board does not have the legal authority to blatantly contradict the plain language of TILA.

CCIA respectfully submits that incorporating into Reg Z the exact opposite of what TILA sets forth goes beyond "adjustments and exceptions" to the statute.

If an all-inclusive approach is to be effectuated, it should be effectuated by Congress' amendment to the statute. By the Board's own admission, it has encouraged Congress to adopt such an approach, and Congress has declined to do so. The Board should not now be doing via rulemaking what it could not accomplish by lobbying Congress. This goes beyond the Board's exemption and exception authority.

The Board also cites TILA section 105 (15 USC 1604) as its authority to require premiums and fees to be included in the APR and to expand the disclosures. That section mandates the Board to "prescribe regulations to carry out the

purpose" of TILA. We question how the regs could carry out the purpose of the Act when the Act itself specifically allows for the exclusion of credit insurance from the cost of credit. The Board's proposal contradicts the language of the statute. That is not permitted under the law.

The Board uses a similarly flawed approach in its attempt to justify its expansion of the disclosures. According to the Board, it is relying on the "voluntariness" standard cited in the Regulation Z. In other words, in order to exclude premiums and fees from the APR, the product must be "voluntary". The Board states 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. However, the language of 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. The Proposed Regulation exceeds the standard outlined under the TILA for excluding premiums for credit insurance, debt cancellation and debt suspension products from the finance charge.

The Board also exceeds its authority by requiring creditors to check age and employment eligibility in order to exclude the premiums and fees from the finance charge. By adding this additional requirement, the Board is re-writing TILA Section 106. Only Congress can re-write TILA. If Congress had intended for creditors to check age and eligibility as a condition of excluding premiums and fees from the finance charge, it would have so stated in TILA. The Board has no authority to re-write TILA. It should withdraw the proposal requiring age and eligibility to be checked in order to exclude premiums and fees from the finance charge.

B. Variations Between the States

Credit insurance premium rates vary by state based on a multitude of factors. Debt cancellation and suspension fees vary by institution and/or product. In connection with closed-end home secured loans there are a number of required fees that vary by state or municipality; e.g. title insurance charges. If the election of credit insurance or debt cancellation and suspension coverage in conjunction with other fees would trigger HOEPA or high-cost loan requirements, a creditor may choose not to offer the optional coverage. This would be unfair to consumers who value and benefit from the optional coverage. They will be exposed to the adverse consequences of loan delinquency, default, and foreclosure for risks that could have been avoided.

CCIA requests that the proposed rule specifically exclude voluntary credit insurance premiums and debt cancellation fees and debt suspension fees from the proposed requirement to include these premiums or fees in the finance charge for all closed-end transactions whether or not secured by real property or a dwelling.

C. CONFLICTS OR OVERLAPS WITH OTHER LEGISLATION

1. Rule 1286: The Federal Reserve Board has done extensive work in revising the requirements for disclosure and notice in connection with closed end mortgage loans. Rule 1286[10] amends Regulation Z by changing its calculations and the disclosure of credit insurance and debt cancellation and debt suspension products as of July 1, 2010. The Board specifically discussed the exclusion of credit insurance premiums and debt cancellation and debt

[10] Published in the Federal register Vol. 74. No 18 Thursday January 29, 2009 impacting 12 CFR 226; Regulation Z; Docket No R 1286

suspension fees from the calculation of the APR during this process. Additionally, the Board revised the requirements for the credit insurance and debt suspension and debt cancellation disclosures. CCIA does not believe that the Board has had sufficient experience in this short time period to justify additional changes to either of these matters.

2. Consumer Financial Protection Bureau: Many of the changes required by the Board became effective recently or will be part of a phased in process under the new Dodd Frank Regulatory Reform Act (the "Act"). The Act requires a Consumer Financial Protection Bureau ("CFPB") which has yet to be established or staffed. The CFPB is charged with implementing the requirements of the Act. There has not yet been time to determine any result from changes already enacted to assess a requirement for more changes to be added. There also exists a potential for conflict between the changes proposed by the Board and the Act requirements.

3. Other Recent Regulation of Single Premium Products: Most single premium credit insurance or single fee debt cancellation or single fee debt suspension products in connection with mortgage loans secured by the consumer's primary dwelling are already regulated to be specifically disclosed or are prohibited under HOEPA, RESPA or Title 14 of the Dodd Frank Act. At pages 58558-58559 (Federal Register/Vol. 75, No. 185/September 24, 2010) the Board discusses "Account Opening Disclosures" and "Credit Protection Products", stating "there have long been concerns about the merits of these products", citing in footnote 16 and the Board's "Joint Report to the Congress Concerning Reform to the Truth in Lending Act" (1998). The Board includes this twelve year old report but fails to take into consideration the changes to credit insurance disclosures required by HOEPA and, more importantly, the absolute prohibition on the financing of single premium credit life insurance/single fee debt cancellation/suspension products on dwellings included in Title 14 of the new Dodd-Frank Financial Reform Bill passed in July. Where is the documentation supporting the need to change the existing disclosures? The Board's proposed disclosures address nothing that is claimed as a reason for needing them.

4. The CARD Act: The Act has had a staggered implementation period and requires changes in the disclosures in connection with open end credit card loans. The latest portions of these were effective July 1, 2010 to be implemented January 1, 2011. The Board cannot anticipate the impact of those required disclosure changes in connection with the additional proposed open end changes recommended under this Rule.

5. The Board Oversteps its Authority Granted under the TILA.

The purpose of the TILA is to "assure a meaningful disclosure of credit terms."[11] Credit insurance, debt cancellation and debt suspension products are not credit products. These products are voluntarily purchased by consumers in conjunction with credit products in order to protect the consumers should one of several distinct events take place, except when the purchase of such protection is required in connection with an underlying financial transaction. The scenario in which these products are purchased and used is very similar to scenarios in which consumers purchase automobile or homeowners' insurance. Consumers purchase automobile and homeowners' insurance for protection should an undesired event occur. Just as automobile insurance is not considered an automobile product and homeowners' insurance is not considered a structural product related to a home, credit protection products should not be considered credit products simply because they will aid consumers in payment of their credit extensions should a certain adverse event occur.

[11] 15 USC § 1601(a).

Voluntary credit protection products specifically are not "credit terms" and do not fall within the Board's rulemaking authority. If a lender does not base an extension of credit or the cost of such extension on a consumer's decision to purchase a credit protection product, the credit protection product and its cost have no bearing on the terms of the underlying extension of credit. The terms of the credit protection product are separate and distinct from the extension of credit and its terms. Because the costs of credit protection products are unrelated to the extension of credit they are not credit terms, and, therefore, are outside the TILA's purpose of assuring "a meaningful disclosure of credit terms."

The term "meaningful" is highly subjective and the Board should work with industry representatives, who deal with consumers on a daily basis, to develop disclosures that are truly "meaningful" to consumers. The small number of participants in each of the Board's focus groups upon which the Board based the Proposed Regulation demonstrates that additional studies should be conducted to determine what type of disclosures are truly "meaningful" to a statistically significant number of consumers. As the CCIA study demonstrates, other disclosures are available providing consumers with meaningful and clear information upon which to make their purchasing decisions.

It is also unnecessary to require the disclosures under the Proposed Regulation for credit insurance, debt cancellation or debt suspension products that are required in connection with closed-end transactions secured by real property or a dwelling. Under current Regulation Z, premiums for credit insurance, debt cancellation and debt suspension products are disclosed as finance charges when required in connection with an underlying financial transaction. By disclosing the premiums of such products an institution clearly makes consumers aware of the costs of these products in accordance with the purpose of the TILA. The disclosures of these costs are "meaningful" to consumers because they show the costs of the products. It is unnecessary to make additional disclosures when the costs for these products are clearly disclosed as finance charges.

6. The Proposed Regulation Does Not Implement the Purpose of the TILA.

As discussed above, the purpose of the TILA is to promote the informed use of credit and "to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit."[12] We believe that if consumers are properly educated about credit insurance, debt cancellation and debt suspension products, they will be able to determine whether the purchase of such products are in their best interests.

The Proposed Regulation, however, does not facilitate the informed use of credit. The Proposed Regulation instead portrays credit insurance, debt cancellation and debt suspension products in such a negative light that the Board is in effect encouraging and advising consumers not to purchase such products. To ensure the informed use of credit, the Board's role should be to implement the TILA so that industry informs consumers about the attributes of the products, not for the Board to advise consumers as to whether they should purchase specific products. As discussed elsewhere in this comment letter, the form and tone of the Proposed Regulation and its model disclosures are not appropriate for facilitating the informed use of credit. The Proposed Regulation will not facilitate the informed use of credit because the proposal contains misleading and inaccurate information. The Proposed Regulation is instead advising consumers.

[12] *Id.*

7. Congress Addressed the TILA in the Dodd-Frank Act and Did Not Require Action on Credit Insurance, Debt Cancellation or Debt Suspension Disclosures.

The Dodd-Frank Act requires the CFPB to combine the disclosures required under the TILA and the RESPA into one disclosure form once it obtains authority for those regulations. By legislating in the area of the TILA, Congress clearly demonstrated that it has considered the law and made substantive changes that it considered necessary and appropriate. Congress did not give any indication that the sections in the TILA and Regulation Z discussing credit insurance, debt cancellation and debt suspension products required revision. As such, the Board should not make drastic changes to Regulation Z without Congressional action. The TILA gives the Board the authority to issue regulations and rules to implement the TILA. The Board has implemented Regulation Z and Congress has not deemed that the provisions related to credit insurance, debt cancellation and debt suspension products are inappropriate. Congress understands how to address and legislate issues regarding the TILA, as demonstrated by its action in the Dodd-Frank Act. Congress has not acted with regard to credit insurance, debt cancellation and debt suspension products, and as such, the Board should not change such provisions in Regulation Z.

8. The Board Recently Extended Rules for Treatment of Credit Insurance and Debt Cancellation Products to Debt Suspension Products

In February of 2010, the Board chose to maintain an extension of the rules that apply to credit insurance and debt cancellation products to credit suspension products. The extension of the rules was originally promulgated by the Board in the January, 2009 Credit Card Rules that were subsequently withdrawn in February of 2010. The extension of the rules to debt suspension products, however, remains in place. These actions demonstrate that the Board reviewed the rules that were in place for credit insurance and debt cancellation products and determined that they were appropriate to carry out the purposes of the TILA. If they were not appropriate, it stands to reason that, at the very least, the Board would not have chosen to expand the coverage of those rules. We believe that, if the Board had any concerns that the rules were inadequate at that time, it would not have expanded their coverage. We find it surprising, and confusing, that the Board would maintain this expanded realm of the rules only to drastically change that same set of rules seven months later. The treatment of this set of rules within that short time frame would suggest to an outside observer that a major event such as an act of Congress took place in that time period to justify such a drastic alteration of the rules. No such event has taken place, and we therefore do not believe that the Board has established a record that justifies the Proposed Regulation.

9. The Timing is Such that the Board will Not Have Responsibility for Implementing the Proposed Rule

According to the TILA, the earliest that the Proposed Regulation can become effective is October 1, 2011, well after the date on which the CFPB will assume TILA rulemaking authority. The TILA states that any regulation of the Board, or any amendment or interpretation thereof, which requires disclosures that are different from the disclosures previously required under a Board regulation, will have an effective date of the October 1 that follows by at least six months the date the regulation, amendment or interpretation was promulgated. Secretary of the Treasury Geithner (the "Secretary") has stated that all consumer financial protection functions will be transferred to the CFPB on July 21, 2011. Consequently, the Proposed Regulation can only go into effect after the Board is no longer responsible for the promulgation of rules under the TILA. Because its rulemaking authority will soon end and the Proposed Regulation would go into effect after the authority ends, we do not believe that the Board should introduce new rules at this time.

10. The Board's Solution to Its Concern Over Eligibility Requirements is Too Extreme

The Board does not have authority under the TILA to require providers of credit insurance, debt cancellation and debt suspension products to verify age and employment eligibility in order to exclude premiums for such products from the finance charge. As previously discussed in the "Violation of Law" section of this comment letter, the TILA allows premiums for these products to be excluded from the finance charge if certain conditions are satisfied. Verifying age and employment eligibility are not among the conditions that must be satisfied in order to exclude premiums from the finance charge. As such, the Board does not have the authority to require such verification to exclude premiums from the finance charge.

CCIA, however, understands the Board's concern that consumers may purchase these products and not meet the eligibility requirements to use them. CCIA believes that the disclosures under the Proposed Regulation to address this problem go well beyond the scope of the Board's perceived problem in this area. The disclosures under the Proposed Regulation are an over inclusive remedy and affect every aspect of credit insurance, debt protection and debt suspension products. If the Board believes that there are problems with the age and employment eligibility of consumers who purchase these products, it should conduct studies with a statistically significant number of participants to develop disclosures that are geared specifically towards educating consumers about the age and employment eligibility requirements of credit insurance, debt protection and debt suspension products.

VI. DISCLOSURE REQUIREMENTS

The Board is proposing new disclosures applicable to credit insurance and debt cancellation and suspension products in connection with all consumer loans. CCIA's interest is primarily limited to G-16(C) and (D) and H-17(C) and (D). These disclosures are nearly identical as to text and format. CCIA's recommendations apply both to credit insurance and debt cancellation and suspension disclosures.

WE OBJECT TO THE BOARD'S PROPOSED CREDIT PROTECTION DISCLOSURES

We object to the Board's disclosures for the following reasons:

A. The Board does not have the authority to expand the disclosures. The Board does not have the authority to expand the disclosures in the manner that it proposes. It is exceeding its authority under TILA, and it is interfering with the McCarron Ferguson Act. We explain as follows:

1**. The Truth-in-Lending Act**. First, the Truth-in-Lending Act at 15 USC 106 clearly sets forth the fees and charges that are to be excluded from the finance charge and APR. This includes credit insurance at subsection (b):

(b) Life, accident, or health insurance premiums included in finance charge.

Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charges **unless:**

(1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and

(2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

This sets forth the clear, black letter intent of Congress to exclude credit insurance premiums from the APR if the above requirements are met. This section of TILA effectively sets forth the disclosures required. The Board has rightfully extended this same right to debt cancellation and debt suspension products, as they are substantially similar products.

While TILA sets forth the requirements under the statute, section 105(a) of TILA generally authorizes the Board to make adjustments and exceptions to TILA to "effectuate the statute's purposes, to prevent circumvention or evasion of the statute, or to facilitate compliance with the statute". 15 U.S.C. 1601(a), 1604(a).

The Board cites this authority when justifying its expansion of 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 states 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.

However, the language of 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. By moving beyond the standard for excluding premiums from the APR established under the TILA, the Board exceeds its authority under the TILA**.** As such, Section 105(a) does not give the Board the authority to expand the disclosures. The Board has run far afield from the language of TILA and has in fact exceeded its authority under the statute.

2. McCarron-Ferguson Act. The Board does not have the authority to expand the disclosures because it violates the McCarran-Ferguson Act. The McCarran-Ferguson Act gives states the authority to regulate the "business of insurance" without interference from federal regulation, unless federal law specifically provides otherwise. 15 U.S.C.A. § 1011 *et seq.* States have broad authority to regulate the business of insurance unless the federal government enacts legislation specifically intended to regulate insurance and to displace state law. Congress has not enacted a federal law that gives the Board the authority to regulate the business of insurance. *See, e.g.,* Dodd–Frank Wall Street Reform and Consumer Protection Act. On the contrary, Congress has unmistakably told the Board (and everyone else) that the regulation of the business of insurance continues to rest with the states. While the Board may have the authority to dictate the treatment of whether or not credit insurance is a finance charge, the Board is preempted from interfering with the states regulation of the business of insurance.

The Board does not have the authority to regulate credit insurance. The McCarran-Ferguson Act gives the states broad authority to regulate the business of insurance. The Board's proposed disclosures clearly attempt to regulate credit insurance because the disclosures have the "end, intention or aim of adjusting, managing, or controlling the business of insurance." *United States Dep't of Treasury v. Fabe*, 508 U.S. 491 (1993). The decision to leave the regulation of credit insurance in the province of the States is wise. States have been actively regulating all aspects of credit insurance for many, many years. As the proposed regulations demonstrate below), the Board lacks not just the experience of the states, but the subject matter expertise to regulate these products. Congress recognized this lack of expertise at the Federal level and created the Federal Insurance Office. The Board's proposed disclosures target integral parts of the relationship between the insurer and the consumer. *Union Labor Life Insurance Co. v.*

Pireno, 458 U.S. 119 (1982). The Board's proposed disclosures clearly attempt to interpret and enforce the insurance certificate and/or policy. *Securities & Exchange Commission v. National Securities*, 393 U.S. 453 (1969).

Insurance is a unique product: the customer pays for it today, but the cost of the product will not be known for perhaps years in the future. The consumer purchases a promise and peace of mind – a promise that if a covered event occurs in the future, the insurance company will pay for financial losses due to that event.

B. The Proposed Credit Protection Disclosures are Factually Inaccurate, Misleading, Negatively-Biased, and Confusing to Consumers.

Even if the Board has the authority to expand the scope and content of the disclosures, the proposed disclosures are problematic to both creditors and consumers, for the following reasons.

The Board's proposed disclosures are based on inaccurate and uninformed assumptions regarding insurance generally, and credit insurance specifically. As a result, the content of the disclosures are not only biased and unfair, but also misleading to consumers of these products.

By way of illustration, we will address the disclosure statements in the order in which they occur:

1. **"STOP.** You do **not** have to buy Credit Life Insurance to get this loan**." (Negatively Biased)**

When viewed it its most favorable light, this proposed statement is a clear warning to consumers that the purchase of this product may be unwise. At worst, it's an outright attempt to prohibit people from considering the product. There is no need to use such jarring, negative language to accomplish the Board's stated goal. A far more appropriate phrasing would be to remove the alarmist "STOP" and instead use language which simply affirms that purchase is optional, such as the following:

*"**THIS PRODUCT IS OPTIONAL**. You do **not** have to buy credit life insurance to get this loan."*

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

A disclosure such as this is particularly misleading because it increases the likelihood that borrowers will make decisions that leave their loved ones insufficiently protected against catastrophic loss.

A loan is a new financial obligation, and as a result a wise and informed borrower is compelled to review his or her protection profile each time a new obligation is added. How critical is this loan (and the assets it purchases) to my family's future? What will happen to the loan if I die? Or become disabled? Or lose my job? Will I or my family be able to meet the ongoing payments if the unexpected happens? What happens if we don't? And even if my family can make the payments, what other resources and goals will be impacted by moving those funds over to cover this loan obligation?

Purchase of credit insurance provides a valuable benefit to 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 loan 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 credit 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. Accordingly, an argument could be made that the disclosure should deliver the opposite message (e.g., "unless you already have sufficient life insurance to protect your family's financial needs and this loan in the event you die, you may **need** this insurance"). The disclosure, as presently worded, tells borrowers that so long as they have some other assets somewhere, they need not worry about protecting this new loan. That statement is misleading and does a disservice to consumers.

In lieu of the language proposed by the Board for the section entitled "**Do I need this product?**" we would suggest the following alternative disclosure:

> *"Credit life supplements any existing life insurance you may have by providing protection for this loan. You may wish to speak with your insurance agent about your insurance needs."*

3. "Other types of insurance can give you similar benefits and are often less expensive." (Factually Inaccurate)

This statement implies, for example, that term life insurance products are interchangeable with credit life insurance products, the only difference being the cost. Nothing could be further from the truth. Nearly every aspect of the products are dissimilar from one another. While both types of products provide benefits upon the insured's death, the similarity stops there. Consider the following:

Attribute	Credit Life	Term Life
Face Amount	Tied to loan balance.	Generally available only at significantly higher face amounts of $50,000 to $100,000 or more.
Scope of Application	Short application with one or two health questions. No consideration given to consumer's other health issues, body type, occupation, smoking status, or recreational interests.	Lengthy application process (typical term life policy has a multi-part application spanning five to ten pages, including over two dozen questions regarding the consumer's finances and family and health history, covering broad array of health concerns and diseases, including smoking, prescription drugs, cancer, diabetes, seizures, and depression). All items are factored in to determine if table rated.
Application Process	Need only answer one or two basic eligibility questions at loan closing while conveniently sitting in the bank's branch.	Multi-page application with dozens of questions. Detailed responses are required for all questions; consumer's medical and financial records are obtained and reviewed by the insurer. In many cases, blood and urine samples are required to be collected.
Rates	Fixed. Rates are mandated	Rates vary dramatically from person to

	by state law.	person. **If** the applicant even qualifies for coverage, the rate depends on the term of the policy, the insured's age, health, occupation, recreational interests, smoking status, and the amount of coverage.
Impact of Age	Rates are identical for all eligible insureds regardless of age.	Costs of term coverage rises exponentially with age.
Total Cost	Limited to the cost to protect the specific loan.	Insured must pay the full cost of $50,000 to $100,000 or more of life insurance.

Perhaps most importantly, alternative coverage at a better price is simply not available to many consumers (such as those over age 40, or those at any age who have existing health issues), which makes the proposed disclosure language misleading and a disservice to consumers. If this disclosure is adopted, many consumers will forego the opportunity to purchase credit insurance, only to learn later than the alternative coverage referred to in the government-mandated disclosure is either unavailable to them or is available in much larger amounts at a higher monthly cost. This factually inaccurate statement should be removed from the proposed disclosure.

4. "This product will cost up to <u>$118 per month</u>. The cost depends on your loan balance." (Misleading)

The cost disclosure. We have the following concerns and objections to the proposed cost disclosure.

<u>Open-end Disclosure</u>. The proposal requires that a dollar amount be disclosed based on the maximum credit limit of the loan. This is misleading and unhelpful to the consumer. Rarely, if ever, will borrowers immediately max out their line of credit. Instead, borrowers will immediately take a draw that is significantly lower than the maximum credit limit. In such a case, the creditor would be making a disclosure that has no meaning to the borrower, and does NOT tell the borrower what the premium is "now", for the existing draw. We offer two alternatives.

First, we believe the unit-cost disclosure should be retained. The Board has suggested a different disclosure because it discovered that consumers cannot make the calculation needed to determine the cost of the product. In doing so, the Board tested the following disclosure:

72 cents per month per $1,000 of monthly outstanding balance . . .

Our data shows that consumers can make the calculation, if the following disclosure is used, with an additional instructional statement:

The cost of this product is $0.72 per $1,000 of your outstanding loan balance each month. *To calculate the monthly cost of this product, divide your loan amount by 1,000, and then multiply by 0.72*.

CCIA utilized Market Tools, Inc., who recruited a panel of consumers who were the subject of a study of three disclosures. The study was fielded via an email invite to an internet survey to a total of 1200 survey participants. Market Tools maintains a panel of survey participants who make themselves available for such independent tests. Market Tools maintains its panel to be nationally representative of the US Census. The participants were required to be between the ages of 18 and 60 (the eligibility age for purchasing credit life insurance); they must be the primary or joint decision maker of financial decisions for their household; and they must not be employed in a sensitive

industry such as marketing research, financial services, insurance or government affairs. If the participant qualified, there were shown one of the disclosures. The study employed a monadic design, in which three sets of 400 participants were shown exactly one of the three disclosures. The three disclosures were: 1) the disclosure proposed by the Board in their Proposed Rule; 2) a form designed by the CCIA: 3) a status-quo representation of disclosures found in the marketplace today. No one participant saw more than one disclosure form. The Board's disclosure was tested as proposed and not altered in any way. CCIA supports accurate and clear disclosure, but opposes the Board's prohibition of independent consumer decision. The results of this consumer survey are attached to this comment letter as Appendix 4.

CCIA tested the disclosure asking 400 consumers to calculate the premium for a $25,000 loan. Of those tested, 67% were able to make the calculation accurately. We therefore ask that the unit cost disclosure be retained for open-end loans, with the additional requirement that the above instructional sentence be included. This will provide the consumer the ability to calculate their premium for any given outstanding balance they may have on their open-end loan at any given time. This provides optimal information to the consumer.

Alternatively, we ask that the disclosure be based on $1,000 rather than the maximum credit limit. This will give a consumer a good idea of the cost of the product in increments rather than the entire credit limit, which more closely resembles the behavior of consumers as they take draws on their account. It would also provide them the ability to estimate the cost for other outstanding balance amounts. For example, if the monthly cost is 72 cents for a $1,000 balance, consumers can estimate that the cost when they have a $2,000 balance would be $1.44 per month, and so forth.

Closed-end Loans. For closed-end loans, the rule would require that the maximum cost be disclosed per period, together with a statement that the cost depends on the consumer's balance or interest rate. The model form states:

"This product will cost up to **$118 per month**. The cost depends on your loan balance."

We object to this language for a couple reasons. First, telling a consumer that the cost depends on the loan balance for closed-end loans does not provide consumers with important and useful price information applicable to their particular loan. Closed-end loan balances do not increase and decrease periodically as they do for open-end loans. But the disclosure makes it sound as if the cost is going to fluctuate randomly or periodically over time. This is not the case. The disclosure also lacks precision and therefore does not tell the consumer how the cost works for a particular loan and credit protection product. For example, most short-term credit insurance products are "monthly outstanding balance, decreasing premium". This means that the premium is charged and collected monthly, and the monthly cost decreases each month as the outstanding balance decreases (assuming the consumer makes all scheduled payments timely). The Board's disclosure makes it sound like the cost will always be $118 per month; this grossly overstates the cost by of the product over the life of the loan.

For example, on a $100,000 loan with a term of 120 months and an interest rate of 5.0%, the first month's premium – based upon state-mandated prima facie rates[13] 1 – would be $61.50. The cost of insurance decreases each month after that as the consumer pays down the balance. Assuming the loan is paid in full and on-time, the total cost of the coverage would be $4,070.86. If, however, a consumer were to take the Board's disclosure on its face, and

[13] Calculations are based upon prima facie rates filed and approved in Minnesota. These rates approximate the average rates available in states nationally.

calculate $61.50 x 120 months, it would appear that the total cost is $7,380.00. The Board's disclosure overstates the premium by 181%.

We also are concerned that characterizing the cost disclosure as a maximum and using the Board's proposed disclosure could subject financial institutions and insurers to unnecessary litigation risk and consumer complaints. While we understand and agree with the premise that the disclosure is based on circumstances as of the date of consummation, so that rate changes, late payments, etc. that occur after consummation do not make the disclosure inaccurate for Reg Z purposes, it can lead the consumer to believe that the cost will <u>never</u> be more than, e.g., $118 per month. While in most cases this will be true, occasionally it may not. In the case where an insurer increases rates later, or the borrower misses payments, modifies the loan, or other circumstances occur that could increase the premium amount, the disclosure could provide a consumer with a document that he purports to be contractual in nature that can be used against the creditor and/or insurer.

We believe the better approach is to explain that the disclosure is based on the borrower's initial loan balance, and to explain how the cost will change for that particular product or how the cost affects the loan and the borrower's payments. In the case of decreasing term MOB products, we suggest that the disclosure would be more accurate and helpful to the consumer if it stated:

Based on your initial loan amount, the cost of this product will be **<u>$72.00 in the first month</u>**, and is scheduled to decrease each month as your loan balance decreases.

For single-premium products, which add the total cost of the premium into the Amount financed, an accurate disclosure might read:

Based on your initial loan amount, the total cost of this product will be **<u>$533.46</u>**. This amount will be added to your loan balance, becomes part of your monthly loan payment, and will be paid down as your loan payments are made.

Based on the above, we suggest that 226.4(d)(1)(i)(D)(3) be revised to read:

(3)(a) for open-end loans, the unit cost of the premium or charge, together with the following instructional statement: *To calculate the monthly cost of this product, divide your loan amount by __, and then multiply by ___.*

(3)(b) for closed-end loans, a statement of the maximum premium or charge per period, together with a statement explaining how the premium or charge will change for that particular product or how the cost affects the loan and the borrower's payments.

We also ask that the above examples be added to the Commentary.

<u>Other comments regarding the cost disclosure</u>. We seek clarification of proposed Comment 16 to section 226.4(d)(1). This Comment states, *inter alia*:

The creditor must use the maximum rate under the policy or coverage.

We ask that this statement be revised to require the maximum rate that would apply <u>to the particular consumer</u> receiving the disclosure. Many policies have different rates based on age, health, etc. We ask that this statement be changed to:

The creditor must use the maximum rate under the policy or coverage that applies to the consumer receiving the disclosure.

For the reasons above, we ask the Board to retain the unit-cost disclosure for open-end loans (with the additional instructional statement), and to restructure the disclosure requirements for closed-end loans as outlined above.

5. "You may not receive any benefits even if you buy this product." (Misleading)

This statement is apparently an attempt to inform the consumer there are eligibility requirements, conditions and exclusions that could prevent him or her from receiving benefits under the policy. However, this is not what the language conveys. The statement makes it sound as if the provider can simply deny claims at will.

As anyone familiar with the insurance industry knows, this is far from the truth – all claims to which the insured is legally entitled must be paid. Our obligation to our insureds is a sacred trust; they paid their premium and we made a commitment to provide benefits in their time of need. We expect to pay, and we do.

Moreover, credit insurance, like other forms of life and disability insurance, are part of a highly-regulated industry. We are subject to myriad federal & state laws, including those regarding unfair/deceptive trade practices and insurance laws governing every aspect of our products, from the specific wording of our policy forms and the method of refund calculation, to what we may say in our product advertising and the sales process. Finally, as members of a highly-regulated industry, we are continually under the watchful eye of states' Attorneys General, not to mention a vigorous plaintiff's bar enticed by the prospect of class action litigation against a "deep pocket".

Were there any truth to the allegation implicit in the proposed language – that industry wrongfully denies benefits – the evidence of such acts would be obvious and abundant. By law, each insurer is required to track and report to state insurance regulators all complaints it receives, regardless of the cause, nature, or even legitimacy of the complaint. These cases are aggregated annually by the National Association of Insurance Commissioners, and provide a clear and objective picture of the performance of the credit insurance industry as a whole.

During the period from 2005 – 2009, 111,392,414 credit insurance certificates were issued. Of all these 110 million plus policies issued during that five year period, insureds nationally lodged an average of only 533 complaints each year. Put more simply, only 1 complaint was submitted for every 41,814 certificates issued. 1 per 41,814!

It is hard to imagine any other industry – let alone one that has been in existence nearly 100 years – that has a more impressive record of performance for its customers. Are nearly 42,000 car repairs completed at dealerships each year without a consumer complaint? Or 42,000 meals served at your local fast food restaurant before a customer is upset with the food or the service they received? How about mobile phone coverage? Or cable TV service?

This exceptionally low incidence of customer complaints is even more impressive when reviewed in the appropriate context of the insurance industry. Over the same five year period, the NAIC reports that complaints on individual life policies were received at a rate 2.7 times that of complaints made on credit insurance.

Clearly, the inference that the credit insurance industry does not pay benefits when due is inaccurate and misleading in the extreme. This proposed statement should be deleted in its entirety.

6. **“You meet the [age] eligibility requirements, but there are other requirements that you must meet. If you do not meet these requirements, you will not receive any benefits even if you buy this product and pay the monthly premium.” (Misleading)**

Yes, it is true. There are other requirements. For example, to be eligible for payment of credit life benefits the *insured is required to have died*. But aside from mandating that the covered event actually occur, the additional requirements in credit insurance policies are few and far between. For example, most policies have an exclusion for suicide within a certain period following purchase. This is generally required by state law to protect an insurer’s “safety and soundness”. And many states premise their promulgated rates on the inclusion of limited exclusion (6 months to two years) for a small number of recently diagnosed serious medical conditions (e.g. – cancer, heart attack, stroke, cirrhosis, and HIV/AIDS). Again, this is to protect the insurer from those on their “death bed” taking out large loans and insuring them in the days prior to dying. No system of insurance could exist over time without such limitations.

Yet in reading this disclosure one is left with the impression that purchasing credit insurance is akin to buying a lottery ticket, where, if you are really lucky, you might actually receive benefits. The misleading and negative impression this statement creates in the mind of the borrower does little to advance informed consumerism. In fact, it does the opposite, leaving would-be purchasers with the impression that he or she will not receive benefits according to the terms of the contract into which they have entered. As such, we suggest that this language be stricken from the proposal, and replaced with the following:

> *“You meet the initial age eligibility requirement. However, there are other eligibility requirements, conditions, and exclusions that could prevent you from receiving benefits under this product. For example, benefits would not be paid if your death is a result of suicide [within the first two years].*
>
> *You should carefully read the product contract for details.”*

Alternatively, we suggest that the disclosure be revised to read as follows:

> *“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 mandated 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.

7. **“Yes, I want to purchase optional Credit Life Insurance at a cost of up to $118 per month.” (Negatively Biased)**

So if the tabular format works so well as a disclosure mechanism, we are at a loss as to why the exact same information needs to be repeated again just inches further down the disclosure. It was underlined and put in bold just sentences earlier, so why post it once again? The reason appears clear: the Board is taking one last chance to convey its negative bias and try to talk the consumer out of purchasing the product.

8. Must Consider the Disclosure in its Totality:

As disturbing as the factual inaccuracies and misleading nature of the disclosure statements above are, it is the tone of disclosure as a whole and the message it sends to would-be buyers that is truly most egregious. Consider the language of the disclosure when read in order:

> *"**STOP**….You do **not** have to buy Credit Insurance to get this loan….If you already have enough insurance or savings to pay off this loan, you may not need this product….Other types of insurance can give you similar benefits and are often less expensive….**You may not receive any benefits even if you buy this product**….there are other requirements you must meet….If you do not meet [ ] other requirements, you will not receive any benefits even if you buy this product and pay the monthly premium…."*
>
> Then the consumer decides if he or she "want[s] to purchase this product at a cost of up to *[the repeated again for a second time]* maximum cost?"

We believe that the Board's proposed disclosure assumes consumers are not competent to make the decision to purchase credit insurance. CCIA fears that this will insult the many consumers who have purchased and found a value to credit insurance over the years. CCIA supports accurate and clear disclosure, but opposes the Board's prohibition of independent consumer decision.

9. Conclusion

The conclusion is inescapable. If the proposed disclosures are adopted, they will undoubtedly lead to consumers in large numbers declining the product, not because they were aware of all the pros and cons of the product, but because the government told them that it was a bad product. The Board's own consumer research proves this.

Instead of providing objective disclosures to fully inform the consumer of the cost of credit, the Board is advocating that consumers not purchase the product, and it has based this admonition on misconceptions and clear misunderstanding of the products. The Board's role is to provide objective disclosures regarding the cost of credit so consumers can make an informed choice when obtaining loans. It is not to provide substantive advice regarding the purchase of credit insurance and debt protection products.

VII. ICF Macro Consumer Focus Groups

A. The ICF Macro Consumer Focus Groups Contain Numerous Procedural Errors and Do Not Establish a Sufficient Basis for New Disclosures.

We believe that the ICF Macro Consumer Focus Groups upon which the Board relied to develop new disclosures in the Proposed Regulation contain multiple procedural deficiencies. Because of these deficiencies, we do not believe that the ICF Macro Consumer Focus Groups serve as an adequate basis for the Proposed Regulation. As such, we respectfully request that the Board withdraw the Proposed Regulation and engage in consumer surveys with a statistically significant number of participants. We will be happy to assist the Board in any surveys and studies. We note the following procedural deficiencies in the ICF Macro Consumer Focus Groups:

1. ICF tested disclosures on consumer focus groups and did not conduct a full consumer survey.

2. ICF tested an extremely small number of consumers. The number of participants tested is not statistically significant and does not serve as an adequate basis for new disclosures.
3. The Board cannot extrapolate results from the small number of consumers surveyed and use those results as the basis for new disclosures.
4. ICF did not use current disclosures in any of its testing. Without using current disclosures, the Board cannot make the argument that current disclosures are insufficient to inform consumers about credit insurance, debt cancellation and debt suspension products.
5. ICF and the Board failed to consult industry representatives and consumers when drafting model disclosures. Industry representatives should be consulted as they deal with credit protection products and consumers on a daily basis. Consumers should be consulted to determine what types of information they need to receive to fully understand credit protection products.
6. The Board did not provide industry representatives and the public with an opportunity to comment on the disclosures used in the ICF Macro Consumer Focus Groups after they were developed.
7. The ICF Macro Consumer Focus Groups only tested credit life insurance disclosures even though there are variations in loans, products and premiums.
8. The Proposed Regulation process lacked adequate due process as it did not allow industry representatives or the public the ability to comment or be heard on any aspects of the testing process.
9. The Board overstates its reliance on consumers in developing the Proposed Regulation through the ICF Macro Consumer Focus Groups. The Board and ICF Macro introduced new disclosures for Consumer Focus Groups after the 2009 Proposed Regulation without retesting the 2009 disclosures in the 2010 Focus Groups. The 2010 Focus Groups used new disclosures that were not the end product of the 2009 ICF Macro Consumer Focus Groups.
10. The number of significant procedural deficiencies indicate that the results from the ICF Macro Consumer Focus Groups do not serve as a valid basis for the Proposed Regulation.

B. The Board's ICF Macro Survey is flawed and biased

The Board should not rely on the ICF surveys (2009/2010) as support for the new disclosure requirement for "credit protection products". ICF did not seek the input of consumers or the credit protection product industry in creating its new disclosure form and did not test the currently used disclosures in its surveys. In the 2010 survey ICF tested its disclosures on only 18 participants[14] (10 in one round and 8 in the final round) and is not a statistically representative sampling. It tested only a credit life disclosure[15] even though there are multiple variations in loans, products, premium differentials, etc. in the marketplace. The proposed disclosure is not "one size fits all".

In 2009 ICF tested its first proposal (C1, C2, C3) and concluded that "most" participants did not understand that credit life insurance was optional and could be declined in order to lower the cost of the loan.
In subsequent rounds of testing its credit insurance disclosure ICF changed the section heading from "Optional Features" to "**ARE THERE ANY FEATURES THAT I COULD ELIMINATE TO SAVE MONEY ON THIS LOAN?"** (D1, D2, D3), to **"OPTIONS WITH ADDITIONAL COSTS** (Adding additional verbiage that it is not required) (E1, E2, F1, F2), removing the references to "Reduced Documentation" (D2) and "Owner's Title Insurance" (E1), thus leaving only "credit life

[14] Page 9 of R-1390; 2. Credit Protection Products Testing and Findings. The Board and ICF Macro also developed and tested model and sample forms for credit protection products in the last two rounds of 18 interviews—one round with 10 participants for HELOCs, and one round with 8 participants for closed-end mortgages.
[15] Pg 22 of the ICF Macro , Design & Testing of Periodic Statistics for Home Equity Loans, Disclosures about Changes to Home Equity Loan Credit Limits and Disclosures About Credit Protection Products, July 2010.

insurance" in the new section of the disclosure. (E1, E2, F1, F2) After this testing, ICF, in consultation with Board staff, concluded that:

1) "Almost all participants were somewhat familiar with credit life insurance before seeing the form; only one indicated that he had never heard of this feature before." (at page 47)

2) "Almost all interview participants understood from their reading of this section of the form that credit life insurance is not required. All understood that this insurance would have a monthly cost associated with it and that this cost was not included in the monthly payments shown elsewhere on the form." (at page 47)

3) "After reading this section of the form, several participants commented that credit life insurance sounded like an important loan feature and indicated that they would want to enroll." (at page 47)

4) "Based on the findings from this round, the Board staff was concerned that the presence of information about credit life insurance on the first page of the TILA statement increased awareness of the product, but did not make consumers aware that they might not qualify for the product's benefits. Therefore the decision was made to remove this information from the TILA statement and to add language to alert consumers that they might not be eligible for benefits from the insurance." (at page 50)

ICF and Board staff suddenly shifted focus from TILA requirements to biased, false, and misleading statements in two new, separate page disclosures, the first of which requires the customer to "**STOP"** and informs the customer that: 1) "You do **<u>not</u>** have to buy this insurance to get this loan". 2) "If you have insurance already, this policy may not provide you with any additional benefits."

"STOP" is an alarmist word that has no clear meaning in this context. Does it mean STOP reading? By emphasizing "**<u>not</u>**" in "You do **<u>not</u>** have to this insurance to get this loan", you again employ an alarmist tactic that is utilized to make the consumer wary of the product. The statement "If you have insurance already, this policy may not provide you with any additional benefits" is simply not a true statement. Credit life benefits are NEVER denied simply because other insurance is in force.

The stated goal for this disclosure is "to alert consumers that they might not be eligible for benefits from the insurance" (at page 50). ICF and Board staff reached the following conclusions about this disclosure concerning credit insurance (at page 64):

1. "All [ten] participants understood after reading the text that there was an additional cost for credit life insurance."
2. When asked whether they would sign up for credit life insurance based on the notice they were shown, three indicated that they would. Two said that they would consult their own life insurance policies first to see whether additional coverage was necessary. The remaining participants were unsure whether they would sign up."
3. "Only three participants noticed the language that indicated even if you pay for credit life insurance, you may not receive any benefit from the policy."
4. "All interview participants noticed the reference to the Board website in the credit life statement. Most indicated that they would be likely to visit this site if they had questions about this product."
5. "Although most participants also saw the reference to a housing counselor, only four indicated they would be likely to contact a counselor to obtain more information. Others said they would be more likely to go to the website shown."

Upon review of the above responses ICF and Board staff concluded (at page 66): "While participants understood most of the content in the credit life insurance disclosure tested this round, most did not realize that purchasing this insurance might not provide them with any additional benefits. Therefore, this information was made more prominent in the version of this disclosure tested in the next round."

A new form was then designed to include the statements: "Other types of insurance can give you similar benefits and are often less expensive" and "Even if you pay for this insurance, you may not qualify to receive any benefits in the future."

This form continues to use the warning, "**STOP**" and emphasizes "**not**" so as to be alarmist. It continues to use the statement "If you have insurance already, this policy may not provide you with any additional benefits." It then adds an additional bullet point stating: "Other types of insurance can give you similar benefits and are often less expensive." This statement is not true. The average size credit life policy is $8,034[16]. Term insurance is not available in this amount and the cost per thousand is less than the cost for a $50,000 term life policy considering premium and policy fees[17] (extrapolating down the rates).

A third bullet point is added stating: "Even if you pay for this insurance, you may not qualify to receive any benefits in the future." This statement is true for all insurance policies. This apparently refers to policy exclusions or conditions which are always included in the policy or certificate and are regulated by every state. A copy of the policy or certificate is required to be delivered to the consumer. However, the way in which this disclosure is presented to the consumer is not only misleading, it is not necessary, and is clearly intended to alarm the consumer.

ICF and Board staff reached the following conclusions following the testing of this disclosure form (at pages 72-73):

1. "All participants understood after reading the notice that credit life insurance was not a required feature."
2. "Participants generally understood the first two bulleted statements. Most participants were surprised by the third statement, which stated that even if they paid for the insurance they may 'not qualify to receive benefits in the future." A few indicated they did not understand how they could pay for coverage and then receive no benefits. Despite their surprise, participants seemed to understand the statement; all but two correctly indicated that if they purchased the coverage and then died, the insurance would not necessarily pay off their loan. Most assumed that the reason a borrower would not be covered would be because of preexisting medical conditions or suicide."
3. "When asked whether they would purchase credit life insurance, all but one participant indicated they would not – in fact, one participant had recently purchased credit life insurance and was planning to re-read the paperwork after the interview. The remaining participant, however, indicated he would purchase credit life insurance after reading the notice."

This disclosure caused nine out of ten participants to indicate that they would not purchase the product, unlike the many participants responding to the earlier form stating that "credit life insurance sounded like an important loan feature" and indicating "they would want to enroll".
The summary of the 2009 ICF study, at page 85, stated:

[16] ACLI Fact Book 2009
[17] Hause Actuarial Solutions, Inc. 2010 study

> "The results of the research described in this report will inform the Board's proposed revisions to Regulation Z, which are scheduled for release in July 2009. The disclosure forms developed through iterative testing will be released with the proposal as model forms and clauses. By relying heavily on direct consumer testing in the development of these forms, the Board hopes to ensure that its new regulations will lead to financial disclosures that will be easier for consumers to read and understand, and as a result will help them make well-informed financial decisions."

Unfortunately, since much of the information used in the credit life testing was untrue and misleading and it led ICF and Board staff to reach incorrect conclusions. The Board then published its proposed regulations in August 2009, including the last disclosure referred to above.

In the 2010 survey ICF, in consultation with Board staff, tested yet another set of "revised" disclosures (CI-1 and CI-2) and, shockingly, found that**, based on the new disclosures, that consumers would not purchase the credit life insurance product.**

Form CI-1, tested in Phoenix, 1) twice tells the consumer that credit life is "optional"; 2) tells him/her to "**STOP"**; 3)you do **<u>not</u>** have to buy this product; 4) you may not need this product; 5)other products are less expensive; 6) "**Note that you may not qualify for benefits if you buy this product";** 7) you won't receive any benefits if you don't meet the eligibility requirements, and 8) that if you wait more than 30 days to cancel you won't get a refund.

The alarmist language remains in this disclosure, adding "you may not need this product". Then, in bold type, ICF adds "Note that you may not qualify for benefits if you buy this product." ICF further adds an incorrect and false statement, "If you cancel after that [30 days], you will not receive a refund." All credit insurance policies are cancellable in the first 30 days with a full refund and after that a refund of unearned premium is due to the consumer. The ICF statement is wrong and, again, misleading.

On page 14 of the 2010 ICF study the following three key conclusions were stated by ICF and Board staff:

- "In participants' initial reading of the disclosure, eight of the 10 participants commented on the fact that they might not receive benefits even after purchasing the product and making payments for a number of years. In most cases, participants were surprised by this and indicated that it made them less likely to purchase the insurance."
- "All but one participant saw from the form that they could cancel the insurance and receive a refund within the first 30 days."
- "After reviewing the form, seven of the 10 participants indicated that they would not buy the product. One said that she would buy the product, while two others indicated that they were unsure. Those who were unsure said that they would call their broker or financial adviser for additional information before making a decision."

Form CI-2, tested in Memphis, goes to the tabular format presented in the proposed rule and includes all the above listed admonitions effectively warning the not to buy credit protection products. Again, the Board feels that it is necessary to tell the consumer that: 1) credit life is optional (twice); 2) that the he/she should "**STOP**"; 3 that he/she does **<u>not</u>** have to buy the insurance; 4 to go to the Board's website for more information about why he/she should not buy this product; 5) he/she may not need this product; 6) there are less expensive products out there; 7) even if he/she pays the premium they might not be eligible for benefits; and 8 if they wait more than 30 days to cancel he/she will not get a refund. CI-2 also includes questions regarding maximum benefits, costs, co-borrowers, and

length of coverage as well as an affirmation that the consumer desires to purchase the optional credit life insurance at an additional cost for a maximum benefit over a set time period.

At pages 12-13, ICF states its key interview findings:

1. "Two of the eight participants understood before reading the disclosure that credit life insurance was a product that could help pay off a mortgage loan in the event of death. One said that he had heard of the product 'in the context of car loans', while another thought it was insurance that would make mortgage payments if a borrower lost their job. The other four participants had never heard of credit life insurance before reading the disclosure."
2. "After reading the disclosure, five participants expressed surprise that they might not receive benefits even after purchasing the product and making payments for a number of years. Five were also surprised that the insurance lasted for only the first ten years of their loan. Two participants were surprised that their co-borrower would not be covered." (Note: Insurance on co-borrowers is usually available for an additional cost.)
3. "All participants understood that credit life insurance was not required on their loan."
4. "CI-2 disclosed the cost of the product as a dollar figure based on the loan amount, rather than as a unit cost as in CI-1. All participants who saw CI-2 understood that the product would cost them $72 a month if they purchased it."
5. "On CI-2 the maximum benefit was disclosed in the question-and-answer table, rather than near the signature line as in CI-1. When participants were asked how much the insurance company would pay if they had a loan balance of $200,000 when they died, all participants who saw CI-2 understood that their benefit would be capped at $100,000."
6. "Six of the eight participants understood that if they died after purchasing the insurance they might not be eligible for benefits. The remaining two participants did not see this information in the notice. When this information was pointed out to one of these two, he said that he might not be eligible for benefits because he had not purchased the product."
7. "All but one participant understood that they could cancel the insurance after 30 days, and that if they did they would receive a refund. The remaining participant did not see this information in the notice. All but one participant also understood that they could cancel the insurance after a year if they wished to do so. One participant incorrectly thought that he could obtain refund if he did so; others understood that they could not."
8. "All participants recognized that if their spouse died, they would receive no benefits unless they had also purchased their own credit life insurance policy."
9. "When asked what they would do if they were unsure whether to purchase credit life insurance, two participants said they would us the website listed in the notice. Other participants said they would research the product online (but did not mention the website in the disclosure), or indicated that they would talk to a financial advisor or insurance agent."
10. "When it was pointed out to them, all but one participant indicated they might use the website in the notice. When asked what information they would be looking for, most participants said they would want to learn more about the eligibility requirements for the product. One said that she would want to know the 'pros and cons' of having credit life insurance."
11. "All participants indicated that based on what they had read in the disclosure, they would not purchase credit life insurance."

BINGO! ICF and Board staff finally composed a disclosure in which all the participants concurred that they would not buy the product.

The final sentence in the ICF MACRO study concludes:

"Consumer testing results indicate that the revised forms communicate important information in a clear and effective way, which should enable consumers to comprehend complex information and make informed financial decisions." Yet what actually occurred was the exact opposite: the revised forms communicated untrue statements which led to incorrect conclusions by ICF MACRO and the Board staff.

The language used by ICF pointedly suggested that debt protection products were of little or no value. ICF's failure to understand the products that were the subject of the testing, combined with its factually inaccurate wording of the survey has tainted its work product, and rendered the survey meaningless.

The purpose of the Truth in Lending Act is said to be ''…to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit. . . .''[18] CCIA respectfully requests the Board to rely on the wisdom of the original drafters of the Truth in Lending Laws and to provide unbiased and factual information for the consumers' informed decision-making.

Several national surveys of credit insurance customers [19]have been conducted following the passage of the Consumer Credit Protection Act in 1968. A comprehensive study performed in 1993 surveyed approximately 3600 individuals. The results indicated that 55% of those who purchased credit life insurance and 22.9% of those who did not purchase credit insurance said that credit insurance was a very or fairly good deal. Of those who purchased credit life insurance, 65.8% either definitely or probably would buy the insurance again. [20]

Results such as these were further affirmed in 2001 in a study[21] by the Board's own Thomas Durkin, which found, based upon the results of surveys conducted in 1977, 1985, and 2001, that "[f]avorable attitudes toward the products among those who purchase credit insurance on installment credit have not changed over time." Examples from the 2001 survey include:

- More than 90% of installment credit users indicated a favorable attitude toward the product.
- 95% indicated that they would purchase it again.
- 75% of first-mortgage borrowers indicated a favorable attitude toward the product.
- 90% of junior-lien mortgage borrowers indicated a favorable attitude toward the product.

[18] Section 102 of TILA.
[19] *Credit Insurance: Rhetoric and Reality,* Monograph 30, Credit Research Center, Krannert Graduate School of Management, Purdue University, March 1994; *Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Thomas A. Durkin, Division of Research and Statistics, Federal Reserve Bulletin, April 2002; Barron, John M., Ph.D., and Michael E. Staten, PH.D.
[20] Credit Life Insurance Rhetoric and Reality , Monograph 30, The Credit Research Center, Krannert Graduate School of Management Purdue University West Lafayette, Ind, 1994.
[21] Thomas A. Durkin, *Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Federal Reserve Bulletin, 2002

The results from the prior studies are consistent. Consumers surveyed regarded credit insurance favorably. Purchasers have a rational economic motive for their decisions as opposed to being pressured or coerced by the lender.[21]

In a recent bank study of 40 consumers who have experienced claims under debt cancellation agreements, 97% indicated that the benefits were critical, or very important, and that they could not have gotten by without them or that it was important to their ability to get by while suffering their covered loss. [22] This informal bank survey surveyed more than twice the number of consumers surveyed by the Board in its recent study. Ninety-seven (97%) per cent is an overwhelming percentage. These consumers shared their beliefs that these products not only have value, but prevented financial hardship for them.

CCIA believes that the Board should listen to these consumers. The Board does a disservice to them if it inhibits the availability of these products.

VIII. Eligibility Requirements Versus Exclusions

A. In Comment 14 to Section 226.4(d), the Board has expressed concern over the sale of credit insurance, debt cancellation and debt suspension product coverages/protections to certain consumers who may be ineligible for some or all of those coverages/protections, and the subsequent rescission of coverage/protection, particularly in the context of a claim or request for benefits. As discussed more fully below, CCIA is unaware of a single instance in which a consumer is ineligible for every coverage/protection that may be offered in a credit protection product with multiple coverages/protections. CCIA acknowledges that there may be instances where a consumer may be ineligible for one or more coverages/protections in a credit protection product with multiple coverages/protections. It is a non-sequitur for the Board to conclude that because a consumer may be eligible for some but not all coverages/protections in a credit protection product that offers multiple coverages/protections, then credit protection products with multiple coverages/protections should be disallowed. The bundled coverage/protection product provides lower cost coverage/protection to high risk consumer groups, and provides coverages/protections to consumers that are not otherwise available in the marketplace as individual and affordable coverages/protections.

B. The Board effectively proposes a prohibition of combinations of coverages/protections within a product offering. However, the Board has not provided any quantitative or qualitative support for its prohibition. The proposed prohibition will hurt consumers. For example, consumers who may be ineligible for a coverage/protection at loan inception may become eligible for a coverage/protection during the term of the loan; however, the Board's proposal would prevent a consumer from obtaining the needed coverage/protection prior to the occurrence of a covered or protected event. Additionally, consumers have no alternative market within which to purchase the unique bundling of coverages/protections.

Companies/lenders frequently offer 'bundled' packages of coverages with limited eligibility requirements and at a low cost. Costs are kept low due to the minimal qualifying criteria and large number of consumers in the protected group. Unbundling would result in a more expensive consumer product, particularly for those consumers who are in a high-risk category. An older person may not qualify for unemployment due to retirement, but still qualifies for life

[21] Michael E. Staten, PH.D., *Monograph 30 Credit Insurance Rhetoric and Reality.* Krannert Graduate School of Management: Purdue University. 1994. Note: The Credit Research Center has relocated to Georgetown University.

[22] Independent Bank survey from August 2010 to September 2010.

coverage yet while paying the same rate for a bundled product as a younger person. Consequently, the younger employed person pays the same rate for bundled coverage as the retired person. The bundled product places high risk groups in the same risk pool, thereby resulting in reduced rates. Offering individual coverages to high risk individuals would likely lead to an unaffordable product. CCIA has commissioned an actuarial study, a copy of which is attached hereto as Appendix 5. The conclusion of that study is that the bundling of coverages/protections in a credit protection product inures to the benefit of high risk consumers by providing lower cost coverages/protections for which they are eligible.

CCIA supports disclosure of eligibility requirements to the consumer, thereby allowing the consumer to make an informed decision whether to purchase the product or not. The Board should not prevent consumers from the opportunity to purchase affordable coverages/protections that may be offered uniquely through a bundled credit protection product. If the proper disclosures are provided and the coverage is voluntary, the charge should not be included in the finance charge.

C. It is inappropriate for a lender to rely on information provided in the consumer credit application to determine credit insurance, debt cancellation or debt suspension eligibility. The Board implies that purchase of a credit protection product is not voluntary if the consumer enrolls in coverage (1) but qualified for some but not all of the coverages/protections, (2) the consumer does not know that there are 'less expensive' alternatives, or (3) the consumer does not know that there are eligibility requirements at claim time. These hypothetical situations have nothing to do with whether a consumer voluntarily purchased a bundled credit protection product. The Board's hypothetical assumes without any supporting evidence that a consumer would not purchase a bundled credit protection product for which they qualified for some but not all of the coverages/protections, and that a consumer does not read the required credit protection disclosures. There is no support for any of the hypothetical situations that form the basis of the Board's sweeping and baseless proposal to eliminate bundled credit protection products.

IX. In Support of Product Availability

CCIA fears that many of the changes and increased disclosures will have a chilling effect on the consumers' decision to purchase credit insurance and debt suspension or debt cancellation products.

Credit insurance and debt suspension or debt cancellation products can be cancelled. The purchase of credit insurance and debt suspension or debt cancellation products is optional. Existing law gives the borrower the right to cancel at any time and get a refund of unearned premiums. Industry practice, required by law in many states, is to give a full refund within a "free look" period of 30 days. Recent experience is that at some point 14% to 19% of consumers electing credit life insurance subsequently voluntarily cancel the coverage (ACLI 2008 Fact Book), mostly initiated by early loan pay-offs. This indicates both consumer awareness of the right to cancel and an ability to exercise the right.

Periodic consumer studies and surveys have repeatedly demonstrated that credit insurance consumers are aware of the credit insurance option, are aware of their credit insurance election, are aware of the cost, did not want to cancel, and would likely purchase the coverage in the future. Some of these studies were undertaken by the Federal Reserve Board. Indeed, the most recent Board survey cited earlier (*Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Thomas A. Durkin, Division of Research and Statistics, Federal Reserve Bulletin, April 2002), validates consumer satisfaction. The survey addressed installment, junior mortgage, and mortgage lending. Concerning credit insurance, the Board's survey concluded: "With respect to credit insurance because the views of

users and nonusers seem so divergent, it seems important that the views of users be given sufficient weight in considering public policies in this area. According to the views expressed by many users of credit insurance, eliminating this product by regulation could be disadvantageous to them."

In response to criticism that credit insurance was more expensive than term or other types of comparable insurance, CCIA requested the attached actuarial analysis (*Term Insurance Versus Credit Life,* Christopher Hause, Actuarial Solutions, December 4, 2009) demonstrating that credit insurance is competitive by either measure. Credit insurance is one rate for all borrowers regardless of age or underwriting risk characteristics. In contrast, ordinary term life insurance is rated by age, health, family history of disease, and other factors. A young preferred risk (about 10% of the population) may be able to purchase ordinary term life insurance at rates lower than credit life. However, as the age and adverse underwriting characteristics of the borrower increase, the premium rate for credit life becomes increasingly competitive, even cheap by comparison. Many, perhaps most, home equity borrowers are above the age of 45, an age when uniform credit insurance rates with few medical underwriting requirements are a clear benefit to those seeking life or disability insurance.

X. Conclusion

Given the rising incidence of home foreclosures in this dour economic cycle, it's important to emphasize that credit insurance and debt suspension / cancellation products have in no way contributed to the economic downturn; in fact the purchase of credit protection products is one of the few acts that actually have helped to lessen its impact and prevent certain foreclosures. In the subprime mortgage market, many foreclosures have been the consequence of negligent and fraudulent loan underwriting. In these situations the loan was doomed to fail with or without credit insurance and debt suspension / cancellation products. Other potential home loan foreclosures may have resulted from income disruptions caused by death, disability, and unemployment. These are exactly the risks that could have been mitigated had the consumer elected to purchase a credit protection product. To prevent or discourage consumers from considering these products does the consumer a disservice. Further, the Board oversteps its regulatory authority to opine on the products. The Board fails to provide the consumers with meaningful information in the disclosures or calculations, and does little to hide its obvious bias against these viable and valuable products.

The Board attempts to regulate credit insurance in this Proposed Rule. Credit insurance is already fully and competently regulated and examined by all fifty state insurance departments. Debt Protection products are not insurance. They are amendments to loan agreements. As loan products, they are regulated by the fifty state bank or retail installment or small loan acts or comparable functional regulator. These same regulators examine lenders on a regular basis to assure compliance. The substantive regulation of these products should remain in the capable hands of their existing regulators, and should not be infringed upon by the Board.

Thank you for this opportunity to provide comment. CCIA will be happy to continue to work with you and answer any questions. We look forward to providing clarification and details as appropriate. Should you desire additional information, please contact our counsel – Tim McTaggart or Mike Callaghan of Pepper Hamilton, LLP at 202-220-1210 or 215-981-4648, respectively.

Very truly yours,

Scott J. Cipinko
Executive Vice President
Consumer Credit Industry Association
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678-858-4001

cc: Ben S. Bernanke, Chairman of the Board of Governors of the Federal Reserve System
Timothy F. Geithner, Secretary of the Treasury
Elizabeth A. Duke, Member of the Board of Governors of the Federal Reserve System

CREDIT INSURANCE AND DEBT PROTECTION PROVISIONS OF TILA AND REG Z

Section 106(b) of the Truth-in-Lending Act, 15 USC 1605:

(b) Life, accident, or health insurance premiums included in finance charge.

Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charges **unless:**

(1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and

(2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

Regulation Z, 12 CFR 226.4(d):

(d) *Insurance and debt cancellation and debt suspension coverage.* (1) *Voluntary credit insurance premiums.* Premiums for credit life, accident, health, or loss-of-income insurance may be excluded from the finance charge if the following conditions are met:

(i) The insurance coverage is not required by the creditor, and this fact is disclosed in writing.

(ii) The premium for the initial term of insurance coverage is disclosed in writing. If the term of insurance is less than the term of the transaction, the term of insurance also shall be disclosed. The premium may be disclosed on a unit-cost basis only in open-end credit transactions, closed-end credit transactions by mail or telephone under §226.17(g), and certain closed-end credit transactions involving an insurance plan that limits the total amount of indebtedness subject to coverage.

(iii) The consumer signs or initials an affirmative written request for the insurance after receiving the disclosures specified in this paragraph, except as provided in paragraph (d)(4) of this section. Any consumer in the transaction may sign or initial the request.

Official Commentary to Reg Z:

4(d) Insurance and debt cancellation and debt suspension coverage.

1. *General.* Section 226.4(d) permits insurance premiums and charges and debt cancellation and debt suspension charges to be excluded from the finance charge. The required disclosures must be made in writing, except as provided in §226.4(d)(4). The rules on location of insurance and debt cancellation and debt suspension disclosures for closed-end transactions are in §226.17(a). For purposes of §226.4(d), all references to insurance also include debt cancellation and debt suspension coverage unless the context indicates otherwise.

2. *Timing of disclosures.* If disclosures are given early, for example under §226.17(f) or §226.19(a), the creditor need not redisclose if the actual premium is different at the time of consummation. If insurance disclosures are not given at the time of early disclosure and insurance is in fact written in connection with the transaction, the disclosures under §226.4(d) must be made in order to exclude the premiums from the finance charge.

3. *Premium rate increases.* The creditor should disclose the premium amount based on the rates currently in effect and need not designate it as an estimate even if the premium rates may increase. An increase in insurance rates after consummation of a closed-end credit transaction or during the life of an open-end credit plan does not require redisclosure in order to exclude the additional premium from treatment as a finance charge.

4. *Unit-cost disclosures.*

i. *Open-end credit.* The premium or fee for insurance or debt cancellation or debt suspension for the initial term of coverage may be disclosed on a unit-cost basis in open-end credit transactions. The cost per unit should be based on the initial term of coverage, unless one of the options under comment 4(d)–12 is available.

ii. *Closed-end credit.* One of the transactions for which unit-cost disclosures (such as 50 cents per year for each $100 of the amount financed) may be used in place of the total insurance premium involves a particular kind of insurance plan. For example, a consumer with a current indebtedness of $8,000 is covered by a plan of credit life insurance coverage with a maximum of $10,000. The consumer requests an additional $4,000 loan to be covered by the same insurance plan. Since the $4,000 loan exceeds, in part, the maximum amount of indebtedness that can be covered by the plan, the creditor may properly give the insurance-cost disclosures on the $4,000 loan on a unit-cost basis.

5. *Required credit life insurance; debt cancellation or suspension coverage.* Credit life, accident, health, or loss-of-income insurance, and debt cancellation and suspension coverage described in §226.4(b)(10), must be voluntary in order for the premium or charges to be excluded from the finance charge. Whether the insurance or coverage is in fact required or optional is a factual question. If the insurance or coverage is required, the premiums must be included in the finance charge, whether the insurance or coverage is purchased from the creditor or from a third party. If the consumer is required to elect one of several options—such as to purchase credit life insurance, or to assign an existing life insurance policy, or to pledge security such as a certificate of deposit—and the consumer purchases the credit life insurance policy, the premium must be included in the finance charge. (If the consumer assigns a preexisting policy or pledges security instead, no premium is included in the finance charge. The security interest would be disclosed under §226.6(a)(4), §226.6(b)(5)(ii), or §226.18(m). See the commentary to §226.4(b)(7) and (b)(8).)

6. *Other types of voluntary insurance.* Insurance is not credit life, accident, health, or loss-of-income insurance if the creditor or the credit account of the consumer is not the beneficiary of the insurance coverage. If the premium for such insurance is not imposed by the creditor as an incident to or a condition of credit, it is not covered by §226.4.

7. *Signatures.* If the creditor offers a number of insurance options under §226.4(d), the creditor may provide a means for the consumer to sign or initial for each option, or it may provide for a single authorizing signature or initial with the options selected designated by some other means, such as a check mark. The insurance authorization may be signed or initialed by any consumer, as defined in §226.2(a)(11), or by an authorized user on a credit card account.

Credit Insurance portion of Model Form H-1 (Loan Model Form):

Insurance

Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life		I want credit life insurance ______________________________ Signature
Credit Disability		I want credit disability insurance __________________________ Signature
Credit Life and Disability		I want credit life disability insurance ________________________ Signature

OCC 2002-40

Subject: Debt Cancellation Contracts and Debt Suspension Agreements
Date: October 16, 2002
To: Chief Executive Officers of National Banks, Department and Division Heads, All Examining Personnel, and Other Interested Parties

Description: Final Rule

Purpose
This bulletin transmits a final rule on debt cancellation contracts (DCCs) and debt suspension agreements (DSAs) that was published in the *Federal Register* on September 19. The effective date of the rule is June 16, 2003.

Summary
The Office of the Comptroller of the Currency (OCC) is publishing a final rule that adds a new part 37 to the OCC's rulebook that governs DCCs and DSAs. The purpose of the final rule is to establish standards governing these products in order to ensure that national banks provide such products consistent with safe and sound banking practices and subject to appropriate consumer protections.
The final rule defines a DCC as a loan term or contractual arrangement under which a bank agrees to cancel all or part of a customer's obligation to repay a loan from that bank upon the occurrence of a specified event. A DSA is defined as a loan term or contractual arrangement under which a bank agrees to suspend all or part of a customer's obligation to repay a loan from that bank upon the occurrence of a specified event.
The final rule codifies the OCC's longstanding position that DCCs and DSAs are permissible banking products and states that they are governed by new part 37 and applicable federal law and regulations, and not by the OCC's insurance sales consumer protection regulations or by state law.
The final rule prohibits the following practices by banks that provide DCCs or DSAs:

- Tying the approval or terms of an extension of credit to a customer's purchase of a DCC or DSA;
- Engaging in misleading advertisements or practices;
- Retaining a right to modify a DCC or DSA unilaterally, unless the modification benefits the customer, or the customer has a reasonable opportunity to cancel without penalty; and
- Charging a single, lump-sum fee for a DCC or DSA offered in connection with a residential mortgage loan.

The final rule imposes the following limitations on banks that provide DCCs or DSAs:

- A bank may offer a DCC or DSA that makes no provision for a refund of the fees but, if the bank does so, it also must offer the customer a *bona fide* option to buy the product that includes a refund feature; and
- For loans other than residential mortgage loans, the bank may offer the customer the option of paying the fee in a single, lump sum, but if it does, it also must offer a bona fide option of paying the fee for that contract in monthly or other periodic payments.

The final rule requires national banks to disclose certain key information to their customers. The disclosure requirements are structured to accommodate the methods that national banks typically use to market DCCs and DSAs by permitting the use of abbreviated disclosures in certain marketing circumstances – including telephone solicitations and "take one" applications – where full disclosure of the terms most relevant to the customer's decision to purchase is not practicable.
Among other requirements, national banks must:

- Tell customers of the prohibition on tying.
- Explain that a DSA, if activated, does not cancel the debt, but only suspends requirements to make payments.
- Disclose the amount of the fees charged.
- Make customers aware of the option to pay in a lump sum or periodic installments.
- Disclose their refund policy if the fee is paid in a single payment and added to the amount borrowed.

- Tell customers whether they would be barred from using the credit line if the DCC or DSA was activated.
- Explain eligibility requirements, conditions, and exclusions that might affect a customer's ability to purchase or obtain benefits under a DCC or DSA.

Sample disclosures are attached to the final rule. The sample forms are not mandatory, but banks that make disclosures in a form substantially similar to those provided will be deemed to satisfy the disclosure requirements.
The final rule also requires that a national bank, generally, obtain the customer's written acknowledgment of his or her receipt of the required disclosures and an affirmative election to purchase the DCC or DSA before completing the sale. Like the disclosure requirements, these provisions are also tailored to accommodate the use of sales methods – such as by telephone – where immediate receipt of a written acknowledgment is not practicable.
The final rule requires that the disclosures, acknowledgement, and affirmative election be presented in a form that is simple, direct, readily understandable, and designed to call attention to the nature and significance of the information provided. Disclosures must also be meaningful.
Finally, the rule contains a safety and soundness requirement that a national bank that offers DCCs or DSAs must manage the risk associated with these products in accordance with safe and sound banking principles. The rule also requires a bank to establish and maintain effective risk management and control processes.
For further information, contact Jean Campbell, attorney, Legislative and Regulatory Activities Division at (202) 874-5090; Suzette Greco, special counsel, Securities and Corporate Practices Division at (202) 874-5210; or Rick Freer, compliance specialist, Compliance Division at (202) 874-4862, Office of the Comptroller of the Currency, 250 E Street, SW, Washington, DC 20219.
Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel

http://www.occ.treas.gov/news-issuances/federal-register/67fr58962.pdf

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Appendix A to Part 37—Short Form Disclosures

• This product is optional Your purchase of [PRODUCT NAME] is optional. Whether or not you purchase [PRODUCT NAME] will not affect your application for credit or the terms of any existing credit agreement you have with the bank.
• Lump sum payment of fee [Applicable if a bank offers the option to pay the fee in a single payment] [Prohibited where the debt subject to the contract is a residential mortgage loan] You may choose to pay the fee in a single lump sum or in [monthly/quarterly] payments. Adding the lump sum of the fee to the amount you borrow will increase the cost of [PRODUCT NAME].
• Lump sum payment of fee with no refund [Applicable if a bank offers the option to pay the fee in a single payment for a no-refund DCC] [Prohibited where the debt subject to the contract is a residential mortgage loan] You may choose [PRODUCT NAME] with a refund provision or without a refund provision. Prices of refund and no-refund products are likely to differ.
• Refund of fee paid in lump sum [Applicable where the customer pays the fee in a single payment and the fee is added to the amount borrowed] [Prohibited where the debt subject to the contract is a residential mortgage loan]

[Either:] (1) You may cancel [PRODUCT NAME] at any time and receive a refund; or
(2) You may cancel [PRODUCT NAME] within lldays and receive a full refund; or (3) If you cancel [PRODUCT NAME] you will not receive a refund.
• Additional disclosures
We will give you additional information before you are required to pay for [PRODUCT NAME]. [If applicable]: This information will include a copy of the contract containing the terms of [PRODUCT NAME].

• Eligibility requirements, conditions, and exclusions

There are eligibility requirements, conditions, and exclusions that could prevent you from receiving benefits under [PRODUCT NAME].
[Either:] You should carefully read our additional information for a full explanation of the terms of [PRODUCT NAME] *or* You should carefully read the contract for a full explanation of the terms of [PRODUCT NAME].

Appendix B to Part 37—Long Form Disclosures

• This product is optional Your purchase of [PRODUCT NAME] is optional. Whether or not you purchase [PRODUCT NAME] will not affect your application for credit or the terms of any existing credit agreement you have with the bank.
• Explanation of debt suspension agreement [Applicable if the contract has a debt suspension feature] If [PRODUCT NAME] is activated, your duty to pay the loan principal and interest to the bank is only suspended. You must fully repay the loan after the period of suspension has expired. [If applicable]: This includes interest accumulated during the period of suspension.
• Amount of fee [For closed-end credit]: The total fee for [PRODUCT NAME] is ll. [For open-end credit, either:] (1) The monthly fee for [PRODUCT NAME] is based on your account balance each month multiplied by the unit-cost, which is lll;
or (2) The formula used to compute the fee is lllll].
• Lump sum payment of fee [Applicable if a bank offers the option to pay the fee in a single payment] [Prohibited where the debt subject to the contract is a residential mortgage loan] You may choose to pay the fee in a single lump sum or in [monthly/quarterly] payments. Adding the lump sum of the fee to the amount you borrow will increase the cost of [PRODUCT NAME].
• Lump sum payment of fee with no refund [Applicable if a bank offers the option to pay the fee in a single payment for a no-refund DCC] [Prohibited where the debt subject to the contract is a residential mortgage loan] You have the option to purchase [PRODUCT NAME] that includes a refund of the unearned portion of the fee if you terminate the contract or prepay the loan in full prior to the scheduled termination date. Prices of refund and no-refund products may differ.
• Refund of fee paid in lump sum [Applicable where the customer pays the fee in a single payment and the fee is added to the amount borrowed]

[Prohibited where the debt subject to the contract is a residential mortgage loan]
[Either:] (1) You may cancel [PRODUCT NAME] at any time and receive a refund; or
(2) You may cancel [PRODUCT NAME] within lldays and receive a full refund; or (3) If you cancel [PRODUCT NAME] you will not receive a refund.
• Use of card or credit line restricted [Applicable if the contract restricts use of card or credit line when customer activates protection] If [PRODUCT NAME] is activated, you will be unable to incur additional charges on the credit card or use the credit line.
• Termination of [PRODUCT NAME] [Either]: (1) You have no right to cancel [PRODUCT NAME]; *or* (2) You have the right to cancel [PRODUCT NAME] in the following circumstances: lllll. [And either]: (1) The bank has no right to cancel [PRODUCT NAME]; *or* (2)The bank
has the right to cancel [PRODUCT NAME] in the following circumstances: lllll.
• Eligibility requirements, conditions, and exclusions

There are eligibility requirements, conditions, and exclusions that could prevent you from receiving benefits under [PRODUCT NAME].
[Either]: (1) The following is a summary of the eligibility requirements, conditions, and exclusions. [The bank provides a summary of any eligibility requirements, conditions, and exclusions]; *or* (2) You may find

a complete explanation of the eligibility requirements, conditions, and exclusions in paragraphs lllof the [PRODUCT NAME] agreement.

Dated: August 16, 2002.

John D. Hawke, Jr.,

Comptroller of the Currency.

[FR Doc. 02–23765 Filed 9–18–02; 8:45 am]

BILLING CODE 4810–33–P

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (N.A.I.C.)
MODEL LAWS, REGULATIONS AND GUIDELINES
N.A.I.C. MODEL LAWS, REGULATIONS AND GUIDELINES
VOLUME 3
CREDIT INSURANCE
CONSUMER CREDIT INSURANCE MODEL ACT
NAIC 360-1
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Current through April 2010 Update.

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Section 16. Severability Provision

BE IT ENACTED BY THE STATE OF [insert state]. [adapt caption and formal portions to local requirements and statutes]

Section 1. Purpose

The purpose of this Act is to promote the public welfare by regulating consumer credit insurance. Nothing in this Act is intended to prohibit or discourage reasonable competition. The provisions of this Act shall be liberally construed.

Section 2. Scope and Definitions

A. Citation and Scope
(1) This Act may be cited as the "Consumer Credit Insurance Act."
(2) All consumer credit insurance issued or sold in connection with loans or other credit transactions for personal, family or household purposes shall be subject to the provisions of this Act, except:
(a) Insurance written in connection with a credit transaction that is:
(i) Secured by a first mortgage or deed of trust; and
(ii) Made to finance the purchase of real property or the construction of a dwelling thereon, or to refinance a prior credit transaction made for such a purpose;
(b) Insurance sold as an isolated transaction on the part of the insurer and not related to an agreement or a plan for insuring debtors of the creditor.
(c) Insurance for which no identifiable charge is made to the debtor.
(d) Insurance on accounts receivable.
B. Definitions
For the purpose of this Act:
(1) "Commissioner" means the insurance supervisory authority of the state;

Drafting Note: Insert the title of the chief insurance regulatory official wherever the term "commissioner" appears.
(2) "Compensation" means commissions, dividends, retrospective rate credits, service fees, expense allowances or reimbursements, gifts, furnishing of equipment, facilities, goods or services, or any other form of remuneration resulting directly from the sale of consumer **credit insurance**.
(3) "Consumer **credit insurance**" is a general term used in this Act to refer to any or all of **credit** life **insurance, credit** accident and health **insurance, credit** unemployment insurance or any other insurance specifically defined in this Act;
(4) "Credit accident and health insurance" means insurance on a debtor to provide indemnity for payments or debt becoming due on a specific loan or other credit transaction while the debtor is disabled as defined in the policy;
(5) "Credit life insurance" means insurance on a debtor or debtors, pursuant to or in connection with a specific loan or other credit transaction, to provide for satisfaction of a debt, in whole or in part, upon the death of an insured debtor;
(6) "Credit transaction" means any transaction by the terms of which the repayment of money loaned or loan commitment made, or payment for goods, services or properties sold or leased, is to be made at a future date or dates;
(7) "Credit unemployment insurance" means insurance on a debtor to provide indemnity for payments or debt becoming due on a specific loan or other credit transaction while

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the debtor is involuntarily unemployed as defined in the policy;

(8) "Creditor" means the lender of money or vendor or lessor of goods, services or property, rights or privileges, for which payment is arranged through a credit transaction, or any successor to the right, title or interest of any such lender, vendor, or lessor, and an affiliate, associate or subsidiary of any of them or any director, officer or employee of any of them or any other person in any way associated with any of them;

(9) "Debtor" means a borrower of money or a purchaser or lessee of goods, services, property, rights or privileges for which payment is arranged through a credit transaction;

(10) "Gross debt" means the sum of the remaining payments owed to the creditor by the debtor;

(11) "Identifiable charge" means a charge for a type of consumer credit insurance that is made to debtors having such insurance and not made to debtors not having such insurance; it includes a charge for insurance that is disclosed in the credit or other instrument furnished to the debtor which sets out the financial elements of the credit transaction and any difference in the finance, interest, service or other similar charge made to debtors who are in like circumstances except for the insured or non-insured status of the debtor or of the property used as security for the credit transaction;

(12) "Insurer" means insurer as defined in [insert section of Code];

(13) "Net debt" means the amount necessary to liquidate the remaining debt in a single lump-sum payment, excluding all unearned interest and other unearned finance charges;

(14) "Open-end credit" means credit extended by a creditor under an agreement in which:

(a) The creditor reasonably contemplates repeated transactions;

(b) The creditor imposes a finance charge from time to time on an outstanding unpaid balance; and

(c) The amount of credit that may be extended to the debtor during the term of the agreement (up to any limit set by the creditor) is generally made available to the extent that any outstanding balance is repaid.

Drafting Note: The definition of open-end credit should be controlled by applicable lending laws in each state and the definition contained in this bill should be consistent with that contained in the applicable lending law. This definition is consistent with that contained in Federal Truth-in-Lending Regulation Z, which applies in most states. In a state having a controlling lending law containing an inconsistent definition, the definition in this bill should be modified to be consistent with the definition in that state's lending law.

Drafting Note: A concern has been raised that the definition of "consumer **credit insurance**" not be so broad as to exclude coverage of consumer **credit insurance** under the various state guaranty funds. Specifically, the NAIC's Post-Assessment Property and Liability Insurance Guaranty Model Act specifically excludes coverage for "**credit insurance**, vendor's single interest insurance, or collateral protection insurance or any similar insurance protecting the interests of a creditor arising out of a creditor-debtor transaction." That model further comments that: ""**Credit insurance**" as used here is intended to mean insurance on accounts receivable." The use of the phrase "consumer **credit insurance**" in this Consumer **Credit Insurance** Model Act is intended to differentiate typical forms of insurance made available to consumers from those coverages excluded from the model property and casualty guaranty fund act.

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Drafting Note: The definitions in Paragraphs (6), (8), and (9) include terms to allow the writing of Consumer **Credit Insurance** on leases. States may wish to reword these definitions with the references to leases removed if they feel Consumer **Credit Insurance** should not be written on leases.

Section 3. Types of Consumer Credit Insurance

The types of consumer **credit insurance** defined in Section 2 may each be written separately or in combination with other types of consumer **credit insurance** on an individual policy or group policy basis. The Commissioner may by regulation prohibit or limit any combination.

Drafting Note: States may wish to consider including provisions which call for discounts when policies are sold on a package basis.

Section 4. Amount of Consumer Credit Insurance

A. Credit Life Insurance

(1) The amount of credit life insurance shall at no time exceed the greater of the actual net debt or the scheduled net debt.

(2) If the coverage is written on the actual net debt, then the amount payable at the time of loss may not be less than the actual net debt less any payments more than two (2) months overdue.

(3) If the coverage is written on the scheduled net debt, then the amount payable at the time of loss shall be:

(a) If the actual net debt is less than or equal to the scheduled net debt, then the scheduled net debt;

(b) If the actual net debt is greater than the scheduled net debt but less than or equal to the scheduled net debt plus two (2) months of payments, then the actual net debt; or

(c) If the actual net debt is greater than the scheduled net debt plus two months of payments, then the scheduled net debt plus two months of payments.

Note: If desired, the following provisions may be added as Paragraphs (4),(5), (6), (7) and (8).

(4) If a premium is assessed to the debtor on a monthly basis and is based on the actual net debt, then the amount payable at the time of loss shall be the actual net debt on the date of death. When such premium is computed on the basis of a balance which does not include accrued past due interest, then the amount payable at the time of loss shall not be less than the actual net debt less any accrued interest more than two (2) months past due.

(5) Notwithstanding the provisions of Paragraph (1) of this subsection, insurance on agricultural loan commitments, not exceeding one year in duration, may be written up to the amount of the loan commitment, on a non-decreasing or level term plan.

(6) Notwithstanding the provisions of Paragraph (1) of this subsection, insurance on educational loan commitments may be written for net unpaid indebtedness plus any unused commitment.

(7) Coverage may be written for less than the net debt by the following methods:

(a) The amount of insurance may be the lesser of a stated level amount and the amount determined by Paragraph (2) of this subsection;

(b) The amount of insurance may be the lesser of a stated level amount and the amount

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determined by Paragraph (3) of this subsection;

(c) The amount of insurance may be a constant percentage of the amount determined by Paragraph (2) of this subsection;

(d) The amount of insurance may be a constant percentage of the amount determined by Paragraph (3) of this subsection; or

(e) In the absence of any preexisting condition exclusions, the amount of insurance payable in the event of death due to natural causes may be limited to the balance as it existed six (6) months prior to the date of death if:

(i) There has been one or more increase in the outstanding balance during the six-month period, other than those due to the accrual of interest or late charges; and,

(ii) Evidence of individual insurability has not been required during the six-month period.

(8) Other patterns of insurance may be used which are not inconsistent with the rest of this subsection.

Drafting Note: States allowing consumer credit insurance on leases may want to consider adding language to this section which specifically defines acceptable amounts of insurance for leases. Some possible variations would include:

1. Coverage providing for the payment in a lump sum of the remaining lease payments;

2. Coverage providing for the payment in a lump sum of the remaining lease payments plus a stated amount for which the leased property may be purchased at the end of the lease;

3. Coverage providing for the payment as they come due of the lease payments; or

4. Coverage providing for the payment as they come due of the lease payments plus payment at the end of the lease of a stated amount which purchases the leased property.

B. Credit Accident and Health Insurance and Consumer Credit Unemployment Insurance

(1) The total amount of periodic indemnity payable by credit accident and health insurance or credit unemployment insurance in the event of disability or unemployment, as defined in the policy, shall not exceed the aggregate of the periodic scheduled unpaid installments of the gross debt; and the amount of each periodic indemnity payment shall not exceed the original gross debt divided by the number of periodic installments.

(2) Notwithstanding the provisions of Paragraph (1), for credit accident and health insurance or credit unemployment insurance written in connection with an open-end credit agreement, the amount of insurance shall not exceed the gross debt which would accrue on that amount using the periodic indemnity. Subject to any policy maximums, the periodic indemnity must not be less than the creditor's minimum repayment schedule.

Section 5. Term of Consumer Credit Insurance

A. Effective Date of Coverage

(1) For consumer credit insurance made available to and elected by the debtor before or contemporaneous with a credit transaction to which the insurance relates, the term of the insurance shall, subject to acceptance by the insurer, commence on the date when the debtor becomes obligated to the creditor except that when evidence of individual insurability is required and such evidence is furnished more than thirty (30) days after the date when the debtor becomes obligated to the creditor, the term of the credit insurance may commence on the date on which the insurance company determines the evidence to be satisfactory.

(2) For insurance coverage made available to and elected by the debtor on a date

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subsequent to the date of the consumer credit transaction to which the insurance relates, the insurance shall, subject to acceptance by the insurer, commence on a date not earlier than the date the election is made by the debtor nor later than thirty (30) days following the date on which the insurance company accepts the risk for coverage, according to an objective method such as one related to a particular date within a billing or repayment cycle or a calendar month.

Drafting Note: A state may wish to review its existing laws to determine if prompt underwriting action is required of insurers when evidence of insurability is submitted. If no other law imposes such a requirement, one may be inserted as a new paragraph in Subsection 5A.

(3) Notwithstanding the provisions of Paragraphs (1) and (2) of this subsection, when a group policy provides coverage with respect to debts existing on the policy effective date, the insurance relating to the debt shall not commence before the effective date of the group policy.

(4) In no event shall a charge for insurance be made to the debtor and retained by the creditor or insurer for any time prior to commencement of the consumer credit insurance to which the charge is related.

B. Termination Date of Coverage

(1) The term of any consumer credit insurance shall not extend beyond the termination date specified in the policy. The termination date of insurance may precede, coincide with or follow the scheduled maturity date of the debt to which it relates, subject to any other requirements and restrictions of this Act.

(2) The term of any consumer credit insurance shall not extend more than fifteen (15) days beyond the scheduled maturity date of the debt except when extended without additional cost to the debtor or except when extended pursuant to a written agreement, signed by the debtor, in connection with a variable interest rate credit transaction or a deferral, renewal, refinancing or consolidation of debt.

(3) If the debt is discharged due to renewal, refinancing or consolidation prior to the scheduled termination date of the insurance, any insurance in force shall be terminated before any new insurance may be written in connection with the renewed, refinanced or consolidated debt.

(4) In all cases of termination of insurance prior to the scheduled termination of the insurance, an appropriate refund or credit to the debtor shall be made of any unearned insurance charge paid by the debtor for a term of insurance after the date of the termination, except that no refund is required of a charge made for insurance if the insurance is terminated by performance of the insurer's obligation with respect to the insurance.

(5) An insured debtor may terminate consumer credit insurance at any time by providing advance request to the insurer. The individual policy or group certificate may require that the request be in writing or that the debtor surrender the individual policy or group certificate, or both. The debtor's right to terminate coverage may also be subject to the terms of the credit transaction contract.

Section 6. Disclosure to Debtors and Provisions of Policies and Certificates of Insurance

A. Pre-purchase disclosure. Before the debtor elects to purchase consumer credit insurance in connection with a credit transaction, the following shall be disclosed to the debtor in writing;

(1) That the purchase of consumer credit insurance is optional and not a condition of obtaining credit approval;

(2) If more than one kind of consumer credit insurance is being made available to

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the debtor, whether the debtor can purchase each kind separately or the multiple coverages only as a package;

(3) The conditions of eligibility;

(4) That, if the consumer has other insurance that covers the risk, he or she may not want or need credit insurance;

(5) That within the first thirty (30) days after receiving the individual policy or group certificate, the debtor may cancel the coverage and have all premium paid by the debtor refunded or credited. Thereafter, the debtor may cancel the policy at any time during the term of the loan and receive a refund of any of the unearned premium. However, only in those instances where insurance is a requirement for the extension of credit, the debtor may be required to offer evidence of alternative insurance acceptable to the creditor at the time of cancellation;

(6) A brief description of the coverage, including a description of the amount, the term, any exceptions, limitations and exclusions, the insured event, any waiting or elimination period, any deductible, any applicable waiver of premium provision, to whom the benefits would be paid and the premium rate for each coverage or for all coverages in a package;

(7) That if the premium or insurance charge is financed, it will be subject to finance charges at the rate applicable to the credit transaction.

B. The disclosures required in Section 6A shall be provided in the following manner:

(1) In connection with consumer credit insurance offered contemporaneously with the extension of credit or offered through direct mail advertisements, disclosure shall be made in writing and presented to the consumer in a clear and conspicuous manner;

(2) In conjunction with the offer of credit insurance subsequent to the extension of credit by other than direct mail advertisements, disclosure may be provided orally so long as written disclosures are provided to the debtor no later than the earlier of:

(a) Ten (10) days after the offer, or

(b) The date any other written material is provided to the debtor.

C. All consumer credit insurance shall be evidenced by an individual policy or a group certificate of insurance which shall be delivered to the debtor.

D. The individual policy or group certificate shall, in addition to other requirements of law, set forth the following:

(1) The name and home office address of the insurer;

(2) The name or names of the debtor or debtors, or, in the case of a group certificate, the identity by name or otherwise of the debtor or debtors;

(3) The premium or amount of payment by the debtor separately for each kind of coverage or for all coverages in a package, except that for open-end loans, the premium rate and the basis of premium calculation (e.g., average daily balance, prior monthly balance) shall be specified;

(4) A full description of the coverage or coverages including the amount and term thereof, and any exceptions, limitation and exclusions;

(5) A statement that the benefits shall be paid to the creditor to reduce or extinguish the unpaid debt and, whenever the amount of insurance benefit exceeds the unpaid debt that any such excess shall be payable to a beneficiary, other than the creditor, named by the debtor, or to the debtor's estate; and

(6) If the scheduled term of insurance is less than the scheduled term of the credit transaction, a statement to that effect on the face of the individual policy or group certificate in not less than ten-point bold face type.

E. Unless the individual policy or group certificate of insurance is delivered to the debtor at the time the debt is incurred, or at such other time that the debtor elects to purchase coverage, a copy of the application for the policy or a notice of proposed insurance, signed by the debtor and setting forth the name and home office address of the insurer, the name or names of the debtor, the premium rate or amount of payment by

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the debtor for the insurance and the amount, term and a brief description of the coverage provided, shall be delivered to the debtor at the time the debt is incurred or the election to purchase coverage is made. The copy of the application for, or notice of proposed insurance, shall also refer exclusively to insurance coverage, and shall be separate and apart from the loan, sale or other credit statement of account, instrument or agreement, unless the information required by this subsection is prominently set forth therein. Upon acceptance of the insurance by the insurer and within thirty (30) days of the date upon which the debt is incurred or the election to purchase coverage is made, the insurer shall cause the individual policy or group certificate of insurance to be delivered to the debtor. The application or notice of proposed insurance shall state that upon acceptance by the insurer, the insurance shall become effective as provided in Section 5.

F. The application, notice of proposed insurance or certificate may be used to fulfill all of the requirements of Subsection A and Subsection D if it contains all of the information required by those subsections.

G. The debtor has thirty (30) days from the date that he or she receives either the individual policy or the group certificate to review the coverage purchased. At any time within the 30-day period, the debtor may contact the creditor or insurer issuing the policy or certificate and request that the coverage be cancelled. The individual policy or group certificate may require the request to be in writing or that the policy or certificate be returned to the insurer or both. The debtor shall, within thirty (30) days of the request, receive a full refund or credit of all premiums or insurance charges paid by the debtor.

H. If the named insurer does not accept the risk, the debtor shall receive a policy or certificate of insurance setting forth the name and home office address of the substituted insurer and the amount of the premium to be charged, and, if the amount of premium is less than that set forth in the notice of proposed insurance, an appropriate refund shall be made within thirty (30) days. If no insurer accepts the risk, then all premiums paid shall be refunded or credited within thirty (30) days of application to the person entitled thereto.

I. For the purpose of Subsection E of this section, an individual policy or group certificate delivered in conjunction with an open-end consumer credit agreement or any consumer credit insurance requested by the debtor after the date of the debt shall be deemed to be delivered at the time the debt is incurred or election to purchase coverage is made if the delivery occurs within thirty (30) days of the date the insurance is effective.

J. An individual policy or group certificate delivered in conjunction with an open-end credit agreement shall continue from its effective date through the term of the agreement unless the individual policy or group certificate is terminated in accordance with its terms at an earlier date.

Section 7. Filing, Approval and Withdrawal of Forms

A. All policies, certificates of insurance, notices of proposed insurance, disclosure notices, applications for insurance, endorsements and riders delivered or issued for delivery in this state and the schedules of premium rates pertaining thereto shall be filed with the Commissioner before being used.

Drafting Note: Some states may want to have advertising filed, but states should consider relying on safe harbor provisions.

B. The Commissioner shall within thirty (30) days after the filing of any such policies, certificates of insurance, notices of proposed insurance, disclosure notices,

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applications for insurance, endorsements and riders, disapprove any such form if the benefits provided are not reasonable in relation to the premium charged, or if it contains provisions which are unjust, unfair, inequitable, misleading, deceptive or encourage misrepresentation of the coverage, or are contrary to any provision of the Insurance Code or of any rule or regulation promulgated thereunder. If the Commissioner does not disapprove a filing within thirty (30) days, it may be deemed approved.

C. If the Commissioner notifies the insurer that the form is disapproved, it is unlawful thereafter for the insurer to issue or use the form. In such notice, the Commissioner shall specify the reason for disapproval and state that a hearing will be granted within twenty (20) days after request in writing by the insurer. No such policy, certificate of insurance, notice of proposed insurance, nor any application, endorsement or rider, shall be issued or used until the expiration of thirty (30) days after it has been so filed, unless the Commissioner shall give prior written approval.

D. The Commissioner may, at any time after a hearing held not less than twenty (20) days after written notice to the insurer, withdraw approval of any such form on any ground set forth in Subsection B above. The written notice of hearing shall state the reason for the proposed withdrawal.

E. It is not lawful for the insurer to issue forms or use them after the effective date of such withdrawal.

F. If a group policy of consumer credit insurance

(1) Has been delivered in this state before the effective date of this Act; or

(2) Has been or is delivered in another state before or after the effective date of this Act

then the insurer shall be required to file only the group certificate and notice of proposed insurance delivered or issued for delivery in this state as specified in Subsections C and E of Section 6 of this Act and such forms shall be approved by the Commissioner if they conform with the requirements specified in these subsections and if the schedules of premium rates applicable to the insurance evidenced by such certificate or notice are not in excess of the insurer's schedules of premium rates filed with the Commissioner; provided, however, the premium rate in effect on existing group policies may be continued until the first policy anniversary date following the date this Act becomes operative as provided in Section 12. However, all other forms specified in Section 7A shall also be filed as specified in this section unless the group policy has been or is delivered in another state which has adopted statutes, regulations, or other provisions similar to this statute. In that event, the forms should be filed for informational purposes. However, the insurer shall be prohibited from using any form filed for informational purposes if the Commissioner subsequently determines that the form is not in substantive compliance with the requirements of this statute.

G. Any order or final determination of the Commissioner under the provisions of this section shall be subject to judicial review.

Drafting Note: This regulatory format applies only to states with a file and use regulatory system. Appropriate modifications will need to be made in states requiring a prior approval, use and file, or no file system.

Section 8. Premiums and Refunds

A. An insurer may revise its schedules of premium rates from time to time, and shall file the revised schedules with the Commissioner. No insurer shall issue any consumer credit insurance policy for which the premium rate exceeds that determined by the schedules of the insurer as then on file with the Commissioner. The Commissioner shall have the authority to promulgate regulations to assure that the premium rates are

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reasonable in relation to the benefits provided, including the authority to regulate the compensation component of the premium rates.

Drafting Note: In the event that a state wishes to develop a regulatory framework allowing for component rating, the following is suggested language:

Alternative Section 8A:

A. An insurer may revise its schedules of premium rates from time to time, and shall file the revised schedules with the Commissioner. No insurer shall issue any consumer credit insurance policy for which the premium rate exceeds that determined by the schedules of the insurer as then on file with the Commissioner. The Commissioner shall have the authority to promulgate regulations to assure that the premium rates are reasonable in relation to the benefits provided, including the authority to regulate the compensation component of the premium rates. In determining whether the premium rates are reasonable in relation to the benefits provided, the Commissioner shall consider and provide for: actual and expected loss experience, general and administrative expenses, loss settlement and adjustment expenses, reasonable creditor compensation, investment income, the manner in which premiums are charged, and other acquisition costs, reserves, taxes, regulatory license fees and fund assessments, reasonable insurer profit and other relevant data, consistent with generally accepted actuarial standards.

Drafting Note: The NAIC, as a whole, neither endorses nor opposes component rating as the appropriate methodology for developing rates for consumer credit insurance products.

B. Each individual policy or group certificate shall provide for a refund in the event of termination of the insurance prior to the scheduled maturity date of the insurance and upon notice to the insurer. The refund of an amount paid by the debtor for insurance shall be paid or credited promptly to the person entitled thereto; provided however, that the Commissioner shall prescribe a minimum refund and no refund which would be less than such minimum need be made. Refund formulas which any insurer desires to use must develop refunds which are at least as favorable to the debtor as refunds equal to the premium cost of scheduled benefits subsequent to the date of cancellation or termination, computed at the schedule of premium rates in effect on the date of issue. The formula to be used in computing such refund shall be filed with and approved by the Commissioner.

Drafting Note: The above refund requirement can be satisfied by a method commonly referred to as either the Rule of Anticipation or the Actuarial Method. The Commissioner may wish to consider other refund methodologies which meet the above requirement.

C. If a creditor requires a debtor to make any payment for consumer credit insurance and an individual policy or group certificate of insurance is not issued, the creditor shall immediately give written notice to the debtor and shall promptly make an appropriate credit to the account or issue a refund.

D. The amount charged to a debtor for any consumer credit insurance shall not exceed the premiums charged by the insurer, as computed at the time the charge to the debtor is determined.

Note: Where a state prohibits payments for insurance by the debtor in connection with credit transactions, the following paragraph may be included.

E. Nothing in this Act shall be construed to authorize any payments for insurance now prohibited under any statute, or rule thereunder, governing credit transactions.

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Section 9. Issuance of Policies

All policies of consumer credit insurance shall be delivered or issued for delivery in this state only by an insurer authorized to engage in the business of insurance therein, and shall be issued only through holders of licenses or authorizations issued by the Commissioner.

Section 10. Claims

A. All claims shall be promptly reported to the insurer or its designated claim representative, and the insurer shall maintain adequate claim files. All claims shall be settled as soon as possible and in accordance with the terms of the insurance contract.

B. All claims shall be paid either by draft drawn upon the insurer, by electronic funds transfer, or by check of the insurer to the order of the claimant to whom payment of the claim is due pursuant to the policy provisions, or upon direction of such claimant to one specified.

C. No plan or arrangement shall be used whereby any person, firm or corporation other than the insurer or its designated claim representative shall be authorized to settle or adjust claims. The creditor shall not be designated as claim representative for the insurer in adjusting claims; provided, that a group policyholder may, by arrangement with the group insurer, draw drafts, checks, or electronic transfers in payment of claims due to the group policyholder subject to audit and review by the insurer.

D. All claims for consumer credit insurance shall be subject to Section [insert code section for the Unfair Claims Settlement Practices Act].

Section 11. Existing Insurance - Choice of Insurer

When consumer credit insurance is required as additional security for any debt; the debtor shall, upon request to the creditor, have the option of furnishing the required amount of insurance through existing policies of insurance owned or controlled by the debtor or of procuring and furnishing the required coverage through any insurer authorized to transact an insurance business within this state.

Section 12. Duties of an Insurer

Except as otherwise prohibited by law, duties imposed upon an insurer within this Act may be carried out by a creditor if the creditor is acting as a common law or statutory agent on behalf of the insurer.

Section 13. Enforcement

The Commissioner may, after notice and hearing, issue such rules and regulations as the Commissioner deems appropriate for the supervision of this Act. Whenever the Commissioner finds that there has been a violation of this Act or any rules or regulations issued pursuant thereto, and after written notice thereof and hearing given to the insurer or other person authorized or licensed by the Commissioner, he or she shall set forth the details of the findings together with an order for compliance by a specified date. The order shall be binding on the insurer and other person authorized or licensed by the Commissioner on the date specified unless sooner withdrawn by the Commissioner or

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a stay thereof has been ordered by a court of competent jurisdiction. The provisions of Sections 5 through 11 of this Act shall not be operative until ninety (90) days after the effective date of this Act, and the Commissioner in his or her discretion may extend by not more than an additional ninety (90) days the initial period within which the provisions of the specified sections shall not be operative. The Commissioner may set forth by regulation *prima facie* reasonable premium rates, together with corresponding safe-harbor benefit provisions, which premium rates shall be conclusively presumed reasonable in relation to the benefits provided when used for policies containing such benefit provisions.

Section 14. Judicial Review

Any party to the proceeding affected by an order of the Commissioner shall be entitled to judicial review by following the procedure set forth in [insert applicable section].

Section 15. Penalties

In addition to any other penalty provided by law, any person, firm or corporation which violates an order of the Commissioner after it has become final, and while such order is in effect, shall, upon proof thereof to the satisfaction of the court, forfeit and pay to the State of [insert state] a sum not to exceed $[insert amount] which may be recovered in a civil action, except that if such violation is found to be willful, the amount of such penalty shall be a sum not to exceed $[insert amount]. The Commissioner, in his discretion, may revoke or suspend the license or certificate of authority of the person, firm or corporation guilty of such violation. Such order for suspension or revocation shall be upon notice and hearing, and shall be subject to judicial review as provided in Section 13 of this Act.

Section 16. Severability Provision

If any provision of this Act, or the application of such provision to any person or circumstances, shall be held invalid, the remainder of the Act, and the application of such provision to any person or circumstances other than those as to which it is held invalid, shall not be affected thereby.

Legislative History (all references are to the Proceedings of the NAIC).

1958 Proc. I 105, 106-112, 169 (adopted).

1959 Proc. I 119, 126-130 (amended).

1961 Proc. I 294, 300-305, 306 (amended).

1968 Proc. II 499, 508-512, 567 (reprinted and amended) (1961 version reprinted 508-512).

1979 Proc. I 44, 47, 373, 449-450, 451 (amended to limit to 5 years or less).

1988 Proc. I 9, 21-22, 828, 851-853, 854-859 (amended and reprinted).

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1988 Proc. II 5, 14, 758, 785-787, 788-791 (technical amendments).

1993 Proc. 3rd Quarter 16, 19, 69-78 (amended).

1995 Proc. 4th Quarter 11, 33, 98, 108, 111 (amended).

A-to-Z Index Terms

ACCIDENT AND HEALTH INSURANCE

ACCIDENT AND HEALTH **INSURANCE - Credit insurance**

CREDIT INSURANCE

CREDIT INSURANCE - Accident and health insurance

END OF DOCUMENT

Summary of Findings: Credit Life Insurance Consumer Disclosure Study

DECEMBER 2010

Submitted by:

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Background

In July 2010, a Summary of Findings on the design and testing of Disclosures about Credit Protection Products was submitted to the Board of Governors of the Federal Reserve System. The qualitative study commissioned by the Federal Reserve Board (the Board) with research company ICF Macro, was designed to evaluate cognitive understanding of consumer disclosures. The Board's stated objective was to create disclosures that consumers would readily understand and use in their financial decision-making.

A portion of the qualitative study specific to Credit Insurance Disclosures conducted in March & April 2010 consisted of cognitive interviews in the Memphis and Phoenix area with eighteen participants. The Board and ICF Macro used feedback from 10 March interviews in Memphis to create a modified form in tabular format that was later tested in April during 8 cognitive interviews in Phoenix. The Board used the findings from the qualitative study to shape proposed revisions to Regulation Z rules.

As a result of the study, on August 16 the Federal Reserve proposed amendments to Regulation Z seeking to amend disclosures related to debt cancellation products and credit insurance offered in connection with open-end credit (e.g., credit cards), closed-end credit (such as installment loans and mortgage loans), and HELOCS (i.e., home equity lines of credit).

The study conducted by the Board with ICF Macro contained some information from consumers on their cognitive understanding of disclosures. However, without additional quantitative research to confirm the findings of the qualitative study, the member companies of CCIA conclude that the findings (drawn from a sample of eighteen consumers) are insufficient to substantiate the wide, sweeping changes to the format and wording proposed in the amendments.

CCIA was interested in the results of a unbiased and statistically sound survey studying the effectiveness of (1) the current Regulation Z disclosures, (2) the Board's Proposed Disclosures, and (3) the CCIA's own version of disclosures. In October CCIA elected to conduct a quantitative consumer study to test the relative clarity of three approaches to consumer disclosures and to further explore if the findings from the qualitative study commissioned by the Board were applicable to a larger general consumer population. The CCIA provided product knowledge but experts in quantitative study methods conducted the study and produced the study outcomes.

The CCIA opted to test: 1) a disclosure proposed by the Federal Reserve Board (FRB) in their proposed amendment to Reg Z/TILA; 2) a form designed by the CCIA; and 3) a status-quo representation of disclosures found in the marketplace today. In November, CCIA fielded a quantitative study to 1,200 consumers via an online panel provided by MarketTools. The study included comprehension questions about product features & benefits, pricing, value, etc. This document highlights the findings from the quantitative study.

Executive Summary of Key Findings

The CCIA-sponsored a quantitative study of 1,200 consumers to determine the relative clarity of three approaches to disclosure documents:

1. The approach proposed by the Federal Reserve Board (FRB) in their proposed amendment to Reg Z/TILA
2. A status-quo representation of disclosures found in the marketplace today
3. An approach designed by the CCIA

CCIA Disclosure Version: Of the disclosures tested, the CCIA Proposed Disclosure has the highest percentage of participants who indicated that the document was clear and easy to understand (66%) as well as the lowest percentage of participants who indicated that the document was not clear and difficult to understand (4%).

FRB Proposed Disclosure: The FRB's Proposed Disclosure had a higher drop (35%) in value perception scores pre- and post-disclosure viewing relative to the other documents tested. 35% fewer participants rated the product valuable (top 4 box) after viewing the Proposed Disclosure, indicating the disclosure negatively impacted their perceptions of the product.

The stated purchase intent scores were significantly higher for the respondents who evaluated the CCIA Proposed Disclosure document.

When asked to rate their purchase intent, the respondents who evaluated the CCIA Proposed Disclosure rated their stated purchase intent significantly higher than respondents viewing other disclosure approaches.

When comprehension of specific aspects of the disclosure were objectively tested, the CCIA's Proposed Disclosure was better at conveying specific features/benefits of the product including:

- Product cost will decrease each month as the loan is paid off
- Coverage amount would decrease each month as the loan is paid off
- Coverage will pay off the loan up to the maximum benefit amount

Participants were asked to calculate the monthly cost of the product based on one of three potential methods and supply their answer. The method with instructions on how to complete the calculation combined with the dollar amount cost per thousand of outstanding balance, yielded a significantly higher percentage of correct responses (67%).

The research findings suggest member companies of CCIA (the Industry) are able to develop consumer friendly disclosures. Their approach enhanced consumer comprehension beyond that of the FRB proposed amended disclosure for various product aspects.

Summary of Approach and Methodology

A 30 question online survey was fielded via an email invite to a nationally representative consumer panel supplied by MarketTools.

The study employed a monadic design. The product selected for this consumer disclosure study was a credit life insurance product for a home equity loan or home loan. A brief explanation of credit life insurance was provided early in the survey. Participants were first asked about their familiarity with credit life insurance and their impression of the product's value prior to viewing a disclosure approach. Then, participants were exposed to a disclosure form and asked to read it carefully. Each respondent reviewed only one approach to a disclosure form and was asked a series of comprehension questions about features, benefits, pricing, etc. Respondents had ability to view the disclosure for their reference at any point while answering comprehension questions. Four hundred responses were obtained per disclosure group with a total of 1,200 consumers.

The respondents were screened to ensure that they were the primary or joint decision maker regarding financial matters for household, that they were not in a sensitive industry, and that they fit within the eligible age range (18 – 60) for the product.

The study commissioned by the Board utilized a qualitative approach through cognitive interviews while this study utilizes a quantitative approach.

Neither qualitative nor quantitative research is necessarily better than the other; they are simply different and yield different types of data and information.

- Qualitative utilizes observations, interpretations and can be used to build theory, explore thought processes, develop an understanding of why, and tends to be more informal utilizing smaller sample sizes.

- Quantitative emphasizes numbers, measurements, control & experimentation in an effort to test hypothesis, establish fact, or statistically describe something with large and sometimes representative sample.

Typically, findings from a qualitative approach are *not used* (1) to generalize findings to the population at large or (2) as the sole source of information in decision making, unless a sufficient number of groups or interviews are conducted to ensure adequate representation. Qualitative and quantitative approaches are often used together; quantitative research can be used to validate findings and themes discovered in qualitative with a larger audience or qualitative can be used to explore the motivation behind the numbers in quantitative to add additional richness and depth.

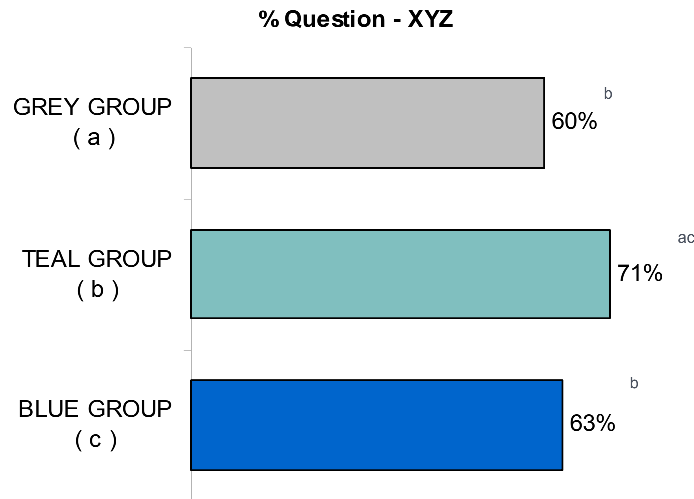
Analysis Approach & Metric Explanations

The data and comparisons of answers/perceptions by the disclosure group are shown by one or a combination of the following:

1. **Top 4 Box** – Top 4 box is the percentage of respondents who indicated an answer of 7, 8, 9 or 10 on a 10-point rating scale; scale could be an agreement or likelihood scale.
2. **Average** – The average rating of all respondents on a 10-point scale using a weighted means method.
3. **Index** - Index numbers are designed to measure the magnitude of changes between sets of numbers by setting one variable as the base equal to 100 and calculating the relative change between the base and subsequent values.
4. **Percentage Correct** – The percentage of respondents who responded with the correct answer to a comprehension question.

Where possible, variances in scores between survey groups were tested for statistical significance at 95% using a two-tailed proportions test. When comparisons between scores are made, letters indicate statistically significant differences between results at a 95% confidence level.

For example, please note the graph below:



The teal bar shows 71%[ac], meaning the differences in scores between the teal group (b) and grey group (a) are statistically significant at a 95% confidence level and the differences in scores between the teal group (b) and the blue group (c) are statistically significant at a 95% confidence level.

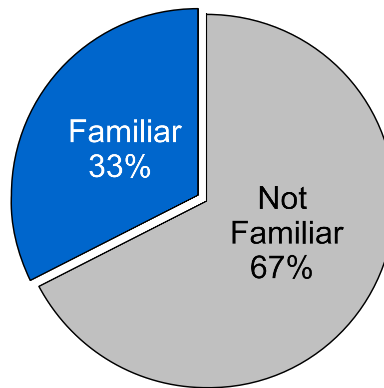
Credit Life Insurance Personal Experience

A portion of consumers are familiar with credit life insurance or have personal knowledge of someone who has benefitted from the product.

Consumers were provided with a brief explanation of credit life insurance and asked to indicate their familiarity with the product.

- One-third of all research participants are familiar with credit life insurance.
- Familiarity levels between disclosure evaluation groups were similar.

FIGURE 1
FAMILIARITY WITH CREDIT LIFE INSURANCE

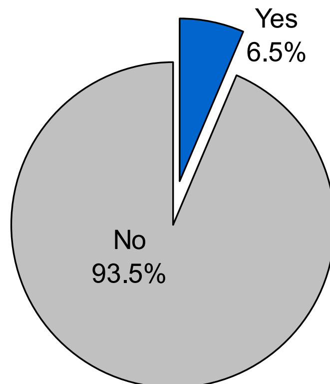


N = 1200

The respondents were also asked, "Do you personally know of someone who has experienced a situation in which credit life insurance helped with their loan?"

- 6.5% percent of the respondents replied yes and 93.5% responded no.

FIGURE 2
PERSONAL EXPERIENCE WITH CREDIT LIFE



Overall Disclosure Clarity

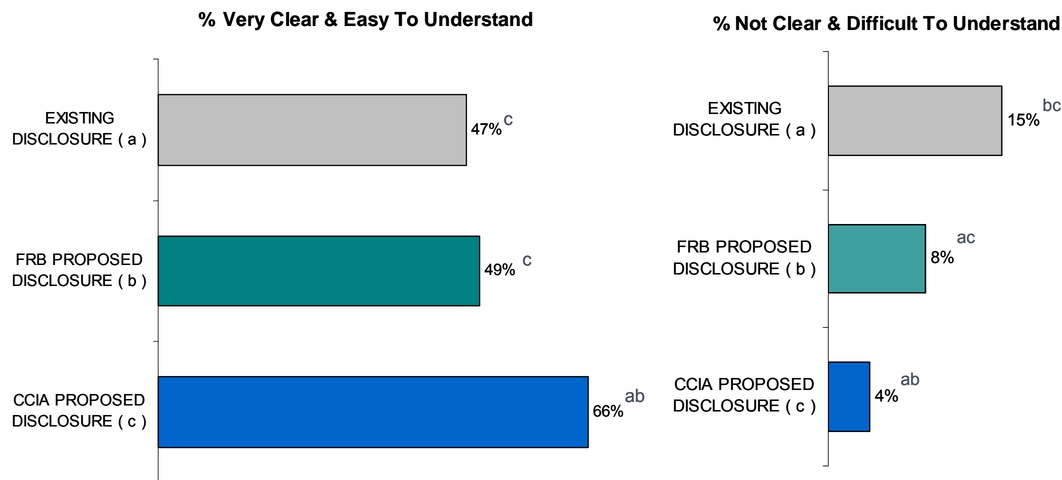
Overall clarity ratings were highest among the respondent group exposed to the CCIA approach; suggesting the industry is able to craft consumer friendly disclosures.

Upon reading the disclosure, participants were asked to respond to a question about the clarity of the document they had just read.

- At a statistically significant level, a greater percentage of research participants indicated the CCIA's Proposed Disclosure was 'very clear and easy to understand'.
- When evaluating whether the disclosures were very clear & easy to understand, the difference between the FRB Existing Disclosure and the FRB Proposed Disclosure is not statistically significant.
- In addition, the Existing Disclosure had a greater percentage of participants who indicated that the document was 'not clear and difficult to understand' compared to the two Proposed Disclosures tested and evaluated. The Existing Disclosure was not in a tabular format while the two Proposed Disclosures were presented in a tabular format.

The participants were asked to rate how clear and easy was it to understand the document regarding Credit Life Insurance. The charts reflect their responses:

FIGURE 3
DISCLOSURE OVERALL CLARITY



NOTE: LETTERS ACCOMPANYING ABOVE PERCENTAGES INDICATE STATISTICALLY SIGNIFICANT DIFFERENCES BETWEEN RESULTS AT 95% CONFIDENCE LEVEL.

Confusing or Unclear Items Follow-up

Participants felt the disclosures, regardless of approach, lacked specific details. However, other documents about the product provided during the loan process would address many of the questions posed by participants.

Participants who rated the disclosure they reviewed as *somewhat clear* or *not clear* were asked a follow-up question to help identify what specific items made the disclosure confusing or unclear: "Tell us anything you found confusing or unclear about the Credit Life Insurance document you just reviewed and please be as specific as possible."

EXISTING: With the existing form, participants felt it lacked sufficient explanation of the product itself; specifically exclusions and terms of the coverage. Below are comments from a selection of the participants:

"It didn't state exactly what it covers and if are there any exclusions. It seems a little deceiving."

"After the 10 years is up while paying the premium what happens next? Does the premium go up, stay the same, and do you still keep coverage?"

"The document in and of itself does not describe what Credit Life Insurance is."

"The first paragraph said you didn't need it. The second paragraph said you needed to pay for it. And the payments weren't very clear."

"Is the premium to be paid for 10 yrs only (or until the borrower reaches age 70), then you'll be covered for the rest of the loan? Is the premium fixed? How do you calculate premium to be paid? I'd like to know what percentage of the total loan it is."

FRB PROPOSED: With the FRB proposed, participants were confused why they would purchase the product at all. Please note the participant comments:

"I may NOT receive benefits even if I pay for it? That is confusing."

"Why would I buy something for this price when you TELL ME other people sell it for less? What is the FIRST $100,000? Do you mean UP to $100,000 is covered or after I pay $100,000 on the loan, I am no longer covered? You say I may not qualify but you don't say what I need TO qualify. So it could be all a waste of my time looking into this or you could arbitrarily discount me for an unknown reason. Nothing about this is clear."

"I guess wondering why anyone would even chance buying it sounds like to me it isn't necessarily helping you out much."

"The "Can I receive benefits?" section seems very vague. The terms in the "How long does the coverage last?" section seems weird."

(Continued on next page)

"I guess I just don't understand why anyone would want this product ,it seems that anytime you'd really want things paid off by this insurance it wouldn't work for you (your too old, loan's too old, loan's too big, etc.)."

CCIA PROPOSED: Those who read the CCIA proposed version were more likely to ask detailed and specific questions about the product, and how such coverage would apply to their own situation. Again, please note the participant comments below:

"Why does it only cover 10 years or until you turn 70?"

"Not clear if only one or both/joint borrowers apply for the loan. If my husband is first on the application, my thoughts are he would be the one to apply."

"It did not address if a mortgage is held jointly between 2 people. Is there still a pay down if 1 of the borrowers dies?"

"Exactly how the monthly premium is calculated, precise conditions of coverage being involuntarily dropped, any cost if decide not to continue coverage at some point on your own?"

"Is the coverage payable to the mortgage holder or to me? If the insurance only lasts until age 70 or ten years what if the mortgage term is longer?"

Credit Life Insurance Product Value Impressions Index Score Comparison

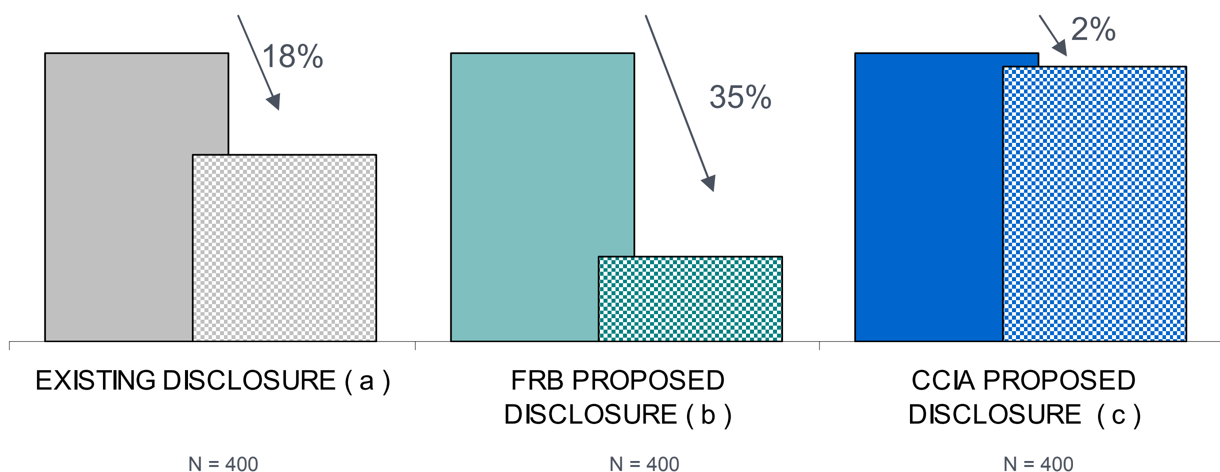
The FRB Proposed Disclosure had the greatest decrease in perceptions of product value; this disclosure employs strong wording such as "STOP", "you may not need this product" & "you may not receive any benefits even if you buy this product."

Consumers were asked to rate the value of the credit insurance life product twice in the survey, once prior to viewing a disclosure and again after viewing the disclosure they were assigned to evaluate. The change in the ratings of value by disclosure where then compared to see how the disclosure impacted participant's perceptions of the product.

- Consumers viewing the FRB Proposed Disclosure had a significantly greater drop (35%) in value perception scores pre and post disclosure viewing possibly suggesting the disclosure negatively influenced their perceptions of the product's value.
- The Existing Disclosure experienced a drop in value perception of 18%, however the change in scores pre- and post-disclosure viewing was not statistically significant at the 95% confidence level.
- The CCIA Proposed Disclosure had a minimal change of 2% in value perception of the product- meaning impressions of value were neither negatively nor positively impacted by viewing the disclosure.

The participants were asked to indicate their level of agreement or disagreement with the following statement, "*Credit Life Insurance is a valuable product for consumers like me.*"

FIGURE 4
CREDIT LIFE INSURANCE VALUE IMPRESSIONS



NOTE: VALUES SHOWN ARE INDEXED TO PRE-DISCLOSURE VIEWING RATINGS OF PRODUCT VALUE. SOLID BAR IS THE VALUE RATING PRIOR TO VIEWING DISCLOSURE; PATTERNED BAR IS THE VALUE RATING AFTER VIEWING DISCLOSURE.

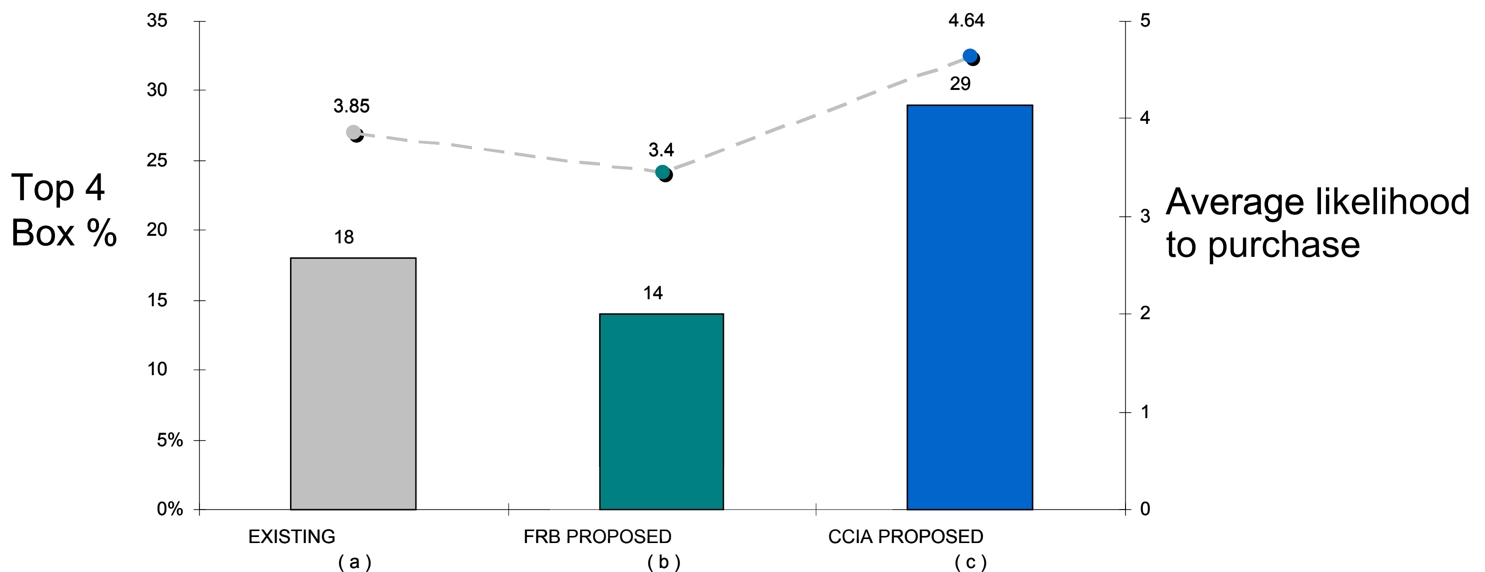
Credit Life Insurance Stated Purchase Intent:

Participants in the CCIA disclosure group had the highest stated purchase intent scores for the credit life insurance product.

- Stated likelihood of purchase was significantly higher for the participant group who viewed the CCIA Proposed Disclosure compared to the other two disclosure documents tested.
- Those viewing the CCIA version were two times as likely to rate purchase intent in the top 4-box range.
- Differences in purchase intent scores between the Existing and FRB Proposed Disclosures were not statistically significant at the 95% confidence level.

FIGURE 5
CREDIT LIFE INSURANCE VALUE
STATED PURCHASE INTENT (10-Pt Scale)

Based on what you know about Credit Life Insurance and assuming you were currently in the process of obtaining or refinancing a home equity loan or home loan, please indicate your likelihood of purchasing Credit Life Insurance using the scale provided.



Credit Life Insurance Product Comprehension:

Although the borrower's total monthly payment[1] remains the same, the CCIA's Proposed Disclosure more effectively communicates the fact that the monthly cost of the product decreases as the loan is paid off.

After viewing the disclosures, each group was asked a multiple-choice question about the product cost *(reminder: participants could review the document again at any time during the survey).*

- Those viewing the CCIA Proposed Disclosure were significantly more likely to select the correct cost of the credit life insurance product, $72 in the first month and decreasing as loan is paid off.
- While most of those viewing the FRB Proposed Disclosure understood the product would cost $72, they were not aware the cost would decrease as the loan is paid off.
- The FRB Existing Disclosure group had a significantly higher percentage of participants believe the product had a one-time payment of $72 in the first month.

FIGURE 6
CREDIT LIFE INSURANCE PRODUCT COST

COST PER MONTH	EXISTING (a)	FRB PROPOSED (b)	CCIA PROPOSED (c)
$72 each month	64%[bc]	81%[ac]	12%[ab]
$100,000	0.3%	0.8%	0.5%
One payment of $72 in the first month	14%[bc]	2%[ac]	5%[ab]
$72 in the first month and it will decrease each month as my loan is paid off	19%[c]	14%[c]	80%[ab]
There is no cost	3%	2%	3%

NOTE: LETTERS ACCOMPANYING ABOVE PERCENTAGES INDICATE STATISTICALLY SIGNIFICANT DIFFERENCES BETWEEN RESULTS AT 95% CONFIDENCE LEVEL.

[1] The sum of that month's principal and interest payments plus any monthly premium for optional credit life coverage.

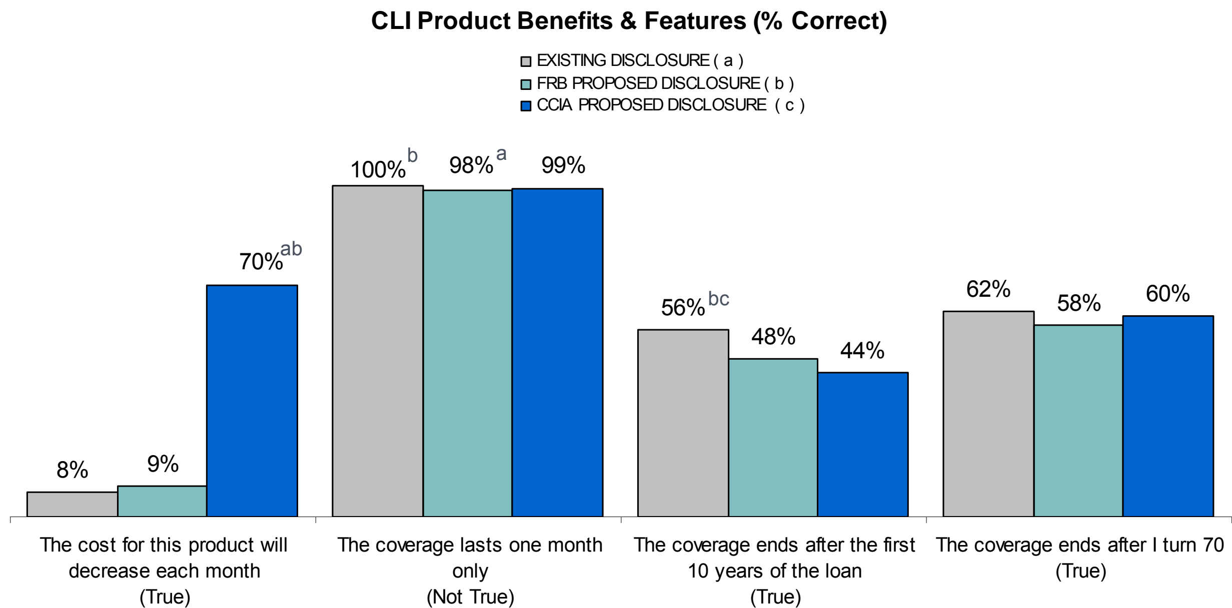
Product Comprehension (Cont'd):

The CCIA approach yielded a significantly greater awareness among participants of the decreasing product cost of the over time while the Existing Disclosure yielded a higher level of awareness of the duration of coverage.

- Those viewing the CCIA Proposed Disclosure were significantly more likely to understand product cost will decrease each month as the loan is paid off.
- Participants for all three disclosures correctly indicated coverage lasting for one month only was not a feature/benefit of the product.
- Roughly half of all participants understood the coverage ends after the first 10 years of the loan, those viewing the Existing Disclosure were significantly more likely to understand this compared than those viewing the Proposed Disclosures
- About 6 in 10 participants understood coverage ends at age 70, differences in understanding across disclosure groups were not statistically significant.

FIGURE 7
CREDIT LIFE INSURANCE PRODUCT COMPREHENSION

Based on the document you just read, which of the following do you believe to be true about the product?



NOTE: LETTERS ACCOMPANYING STATED PERCENTAGES INDICATE STATISTICALLY SIGNIFICANT DIFFERENCES BETWEEN RESULTS AT 95% CONFIDENCE LEVEL.

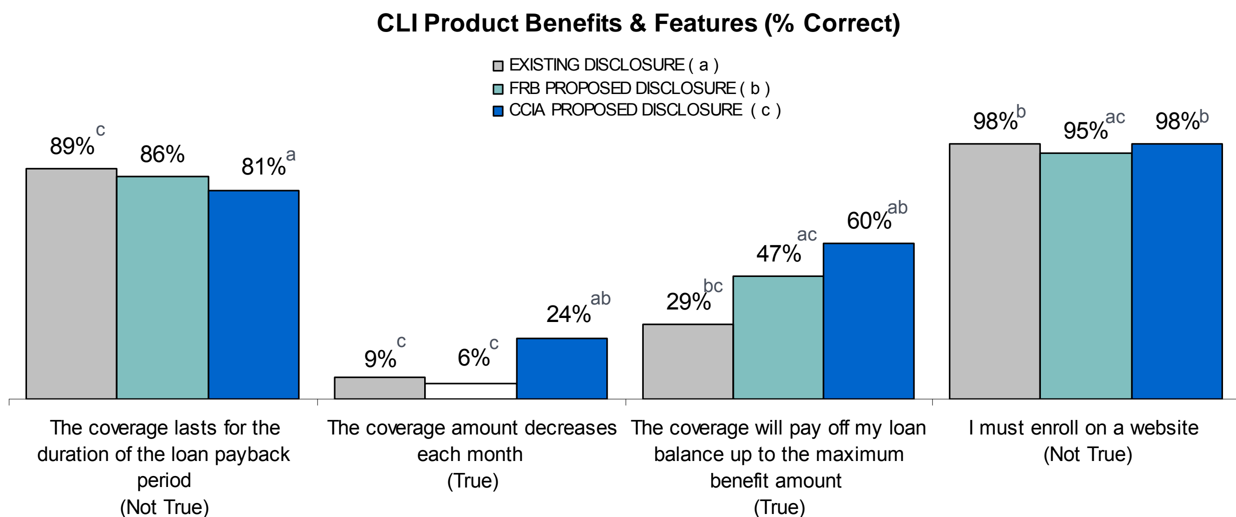
Product Comprehension (Cont'd):

The CCIA approach yielded a significantly greater awareness among participants of the coverage amount decreasing over time in addition to the coverage paying the loan balance up to a maximum benefit amount.

- A majority of participants understood the coverage does not last the entire duration of the loan; those who viewed the Existing Disclosure were significantly more likely than those who viewed the CCIA proposed version to understand this aspect.
- Those viewing the CCIA Proposed Disclosure were significantly more likely to understand coverage amount would decrease each month when compared to the existing and FRB Proposed Disclosures.
- Those viewing the CCIA Proposed Disclosure were significantly more likely to understand coverage will pay off the loan up to the maximum benefit amount compared to the other two disclosures tested; those who viewed the FRB Proposed Disclosure were significantly more likely than those who viewed the Existing Disclosure in understanding this product aspect.
- While overall most participants understood you did not have to enroll for the product on a website, those viewing the FRB Proposed Disclosure were significantly more likely to incorrectly conclude that it was a requirement.

FIGURE 8
CREDIT LIFE INSURANCE PRODUCT COMPREHENSION

Based on the document you just read, which of the following do you believe to be true about the product?



NOTE: LETTERS ACCOMPANYING ABOVE PERCENTAGES INDICATE STATISTICALLY SIGNIFICANT DIFFERENCES BETWEEN RESULTS AT 95% CONFIDENCE LEVEL.

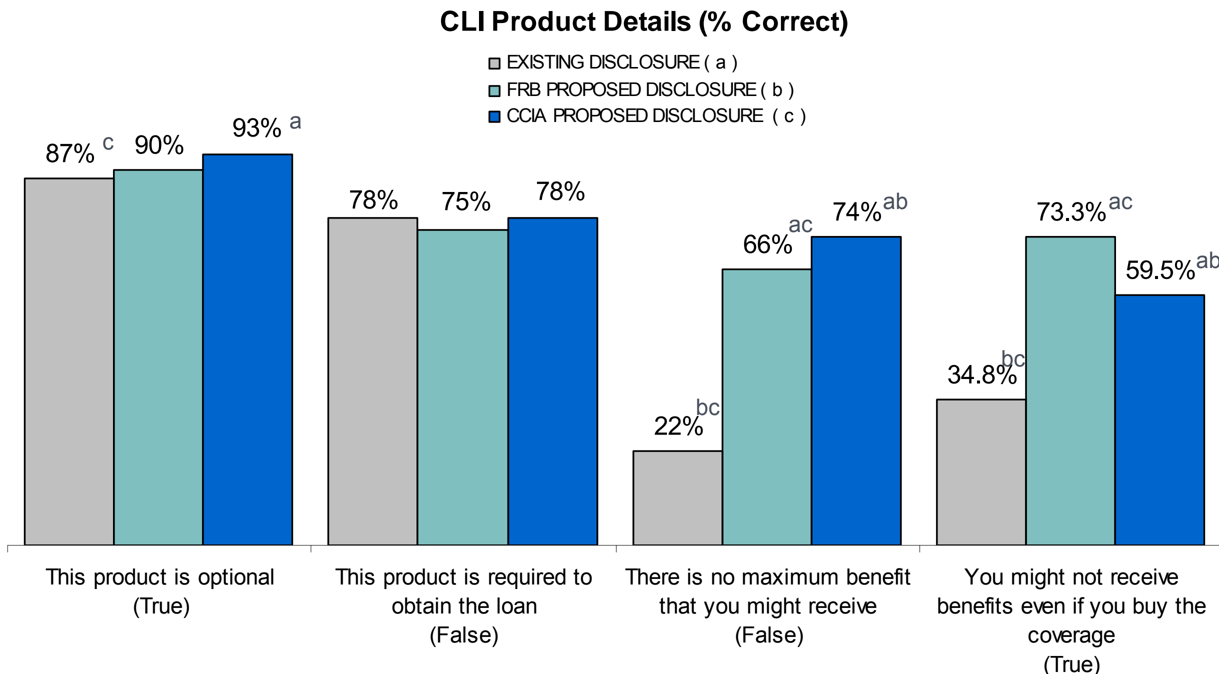
Product Comprehension (Cont'd):

The CCIA approach yielded a significantly greater awareness among participants of the coverage amount decreasing over time in addition to the coverage paying the loan balance up to a maximum benefit amount.

- Those viewing the CCIA Proposed Disclosure were significantly more likely to understand the product is optional compared to the Existing Disclosure.
- The differences in scores among responses to the product being required to obtain the loan were not statistically significant.
- Those viewing the FRB Proposed Disclosure were less likely than those viewing the CCIA proposed version to understand the product had a maximum benefit amount; Maximum benefit amount information for those viewing Existing Disclosure was not available. Therefore, the 22% who correctly answered the question about maximum benefit on the existing version were literally guessing.
- The FRB proposed version was significantly more likely to communicate the message that benefits might not be received even if the customer purchases the product.

FIGURE 9
CREDIT LIFE INSURANCE PRODUCT COMPREHENSION

Based on the document you've just read, please indicate if the following statements are true, false or if the information to answer the question was not available.



NOTE: LETTERS ACCOMPANYING ABOVE PERCENTAGES INDICATE STATISTICALLY SIGNIFICANT DIFFERENCES BETWEEN RESULTS AT 95% CONFIDENCE LEVEL.

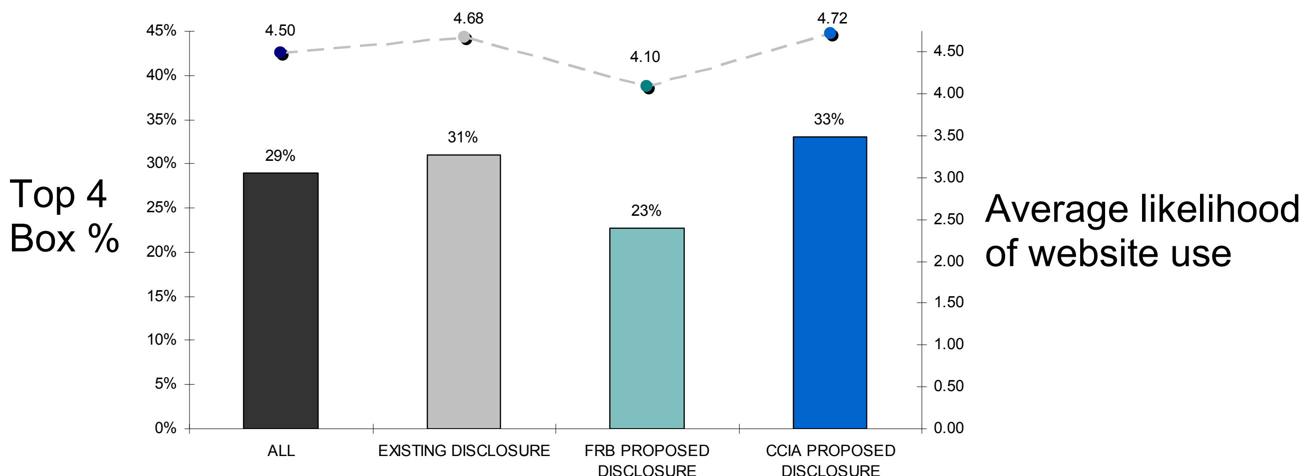
Resources Used In Purchasing Decision:

If a website were included on the disclosure document as a resource, Less than 1 in 3 people would likely visit the site. Participants indicated they prefer to do their own research online.

- Overall, 3 in 10 participants indicated they would be likely to utilize a website to find out more information about credit life if it had been included on the disclosure document.
- Those who viewed the FRB Proposed Disclosure were less inclined to visit an informational website if provided. However, when asked which resources they would use if unsure whether to purchase, they are more likely to visit the provided website than those viewing the other disclosures.
- 6 in 10 participants indicated they would conduct their own research online if they were unsure about purchasing credit life insurance.

FIGURE 10
LIKELIHOOD OF WEBSITE USE

*If the document you read included a URL to a web site, which would provide more information about the product, and product options, how likely would you be to visit that website? **



* For the FRB Disclosure, verbiage read "The document you read included a URL to a web site www.frb.gov/___ which would provide more information about the product and product options, how likely would you be to visit that website?"

FIGURE 11
UTILIZATION OF RESOURCES

Which resources would you use if you were unsure whether to purchase Credit Life Insurance? (select all that apply)

RESOURCE	ALL	EXISTING	FRB PROPOSED	CCIA PROPOSED
A website provided	41%	37%	48%	39%
Talk to financial advisor	35%	34%	35%	36%
Talk to an insurance agent	38%	36%	36%	43%
Do my own research online	64%	63%	69%	61%
Talk to family and/or friends	37%	36%	38%	37%

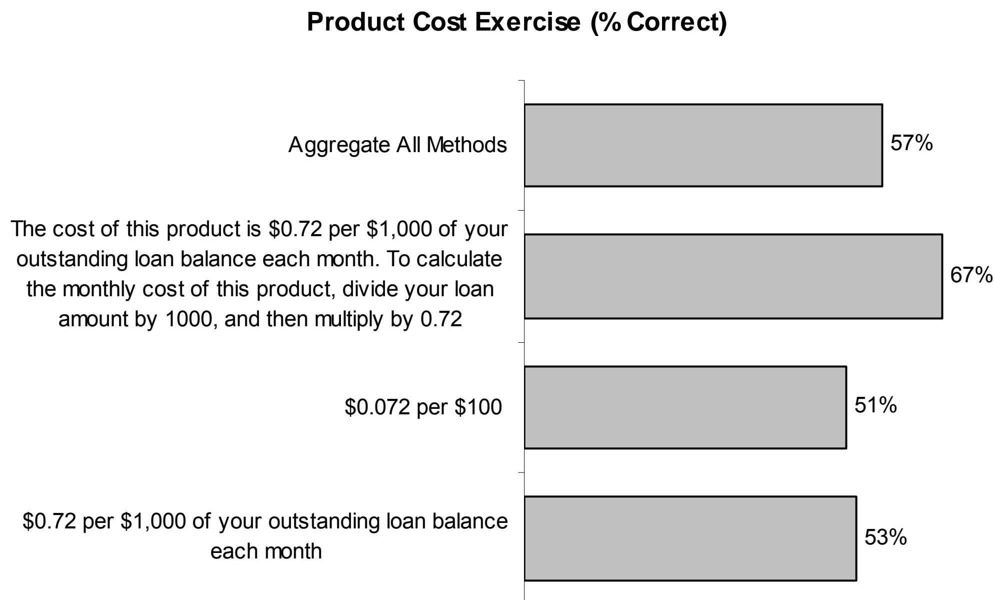
Product Cost Presentation Approaches:

By combining product cost per thousand of outstanding balance with brief instructions on how to calculate the product cost, a higher rate of accuracy in calculating the monthly cost of coverage was achieved.

- Participants were asked to calculate the monthly cost of the product based on one of three methods, the approach with brief instructions on how to complete the calculation yielded a significantly higher percentage of correct responses ($18/month).
- The monthly cost of $0.072 per $100 and $0.72 per $1,000 of outstanding loan balance each month yielded similar percentages of correct responses.

FIGURE 12
PRODUCT COST PRESENTATION

Please calculate the monthly cost of this product for a loan of $25,000.



Appendix: Credit Life in Their Own Words:

Once participants read a disclosure, they were asked to describe the product in their own and why they might need or want it?

Consumers described how credit life insurance is a product designed to pay off their loan in the event the borrower dies so the debt is not carried by surviving family members.

"[You] pay a monthly fee to get your mortgage paid off in case the borrower dies." – ***Existing Disclosure***

"For up to $72 per month, you can purchase insurance that will pay up the first $100,000 of your debts should you die. However you must be certain criteria to receive the benefits, so even if you pay the premium every month, you might not receive any benefits when you die. Policy in effect for 10 years or until you reach age 70." – ***FRB Proposed Disclosure***

"If I am under 70 and I die, other than suicide in the first two years, this option will pay off my loan up to 100 grand. According to the loan amount, the premium will start at $72 per month and decrease over time as the balance decreases. It is optional and not required." – ***CCIA Proposed Disclosure***

"An insurance policy to pay off the loan, coverage lasting 10 years or until the age of 70, whichever comes first." – ***Existing Disclosure***

"It covers debt up to $100,000 for the first ten years of my mortgage or until the age of 70 whichever comes first and costs up to $72 per month. If I don't die during the term of the policy I will never claim any benefit." – ***FRB Proposed Disclosure***

"It is basically insurance for your home loan, in the event that you die non-suicidally. However, the coverage is only for 10 years or when you reach 70 (whichever is soonest). This would be a good idea if you are in an at-risk profession and have loved ones in a precarious financial situation." – ***CCIA Proposed Disclosure***

'It is basically an insurance policy that you pay a monthly premium on to possibly pay off an existing loan in the event that you die. However, the "insurance" only pays up to $100,000 and there seem to be restrictions that may not even allow the coverage." ***– FRB Proposed Disclosure***

"It is basically a life insurance policy for your mortgage. One may want to purchase this to ensure his or her family can remain living in their residence should his or her pass away." – ***Existing Disclosure***

"It is insurance you have the option to purchase when you take out a loan. I would not be interested in it as I have enough insurance to cover any needs we might have. I also believe it is over priced for the amount of coverage." ***– CCIA Proposed Disclosure***

Appendix: Disclosure Documents Tested

PROPOSED CCIA DISCLOSURE

The proposed CCIA disclosure was developed by members the CCIA's Federal Affairs Sub Committee.

OPTIONAL CREDIT LIFE INSURANCE

PLEASE READ THESE IMPORTANT DISCLOSURES

THIS PRODUCT IS OPTIONAL. You do **not** have to buy credit life insurance to get this loan.

What is it?	Credit life insurance provides protection for borrowers who take out loans. It is designed to reduce or pay off the outstanding balance on this loan (up to the maximum benefit amount) if you die during the term of the insurance.
Do I need this product?	Credit life insurance supplements any existing life insurance you may have by providing protection for this loan. You may wish to speak with your insurance agent about your insurance needs.
How much does it cost?	Based on your initial loan amount, the cost of this product will be **$72.00 in the first month**, and is scheduled to decrease each month as your loan balance decreases.
What is the maximum benefit amount?	This product will pay the insured outstanding balance as of the date of your death, up to $100,000. You will be responsible for any loan balance that remains after the benefit has been applied to your loan.
Are benefits always payable?	You meet the initial age eligibility requirement. However, there are other eligibility requirements, conditions, and exclusions that could prevent you from receiving benefits under this product. For example, benefits would not be paid if your death is a result of suicide within the first two years of coverage. You should carefully read the product contract for details.
How long does the coverage last?	This product provides coverage for the first 10 years of your loan or until you reach age 70, whichever comes first.

☐ Yes, I want to buy optional credit life insurance.

☐ No, I do not want to buy optional credit life insurance.

x______________________________ ______________________

Signature Date

EXISTING DISCLOSURE

The Existing Disclosure mimics language of an existing disclosure provided to consumers by a company currently selling credit life insurance.

OPTIONAL CREDIT INSURANCE DISCLOSURE

Credit Insurance is NOT required to obtain this loan. Lender's decision to grant credit will not be affected by Borrower's decision to purchase or not to purchase this optional insurance.

Coverage will not be provided unless Borrower signs and agrees to pay the applicable monthly premium in addition to the monthly loan payment required.

I request the following insurance:

Insurance Type	1st Month Premium	1st Year's Premium*
Single Credit Life	$72.00	$861.34

* Calculated assuming monthly loan payments are made on time.

Coverage will continue for the first 10 years of your loan or until you reach age of 70, whichever comes first.

If Coverage is selected and you are eligible, you will be charged a premium and given a Certificate of Insurance from the Insurance Company, which provides the important terms of this coverage. Read it carefully.

Proposed Insured Signature ______________________ Date ______________

PROPOSED FRB DISCLOSURE

The proposed FRB disclosure tested mimics a proposed model form resulting from the findings of the qualitative research commissioned by the FRB earlier in 2010.

OPTIONAL COSTS

Option to Purchase Credit Life Insurance

STOP. You do **not** have to buy Credit Life Insurance to get this loan. Go to www.frb.gov/___ to learn more about this product.

Do I need this product?	If you already have enough insurance or savings to pay off this loan if you die, you may not need this product. Other types of insurance can give you similar benefits and are often less expensive.
How much does it cost?	This product will cost up to **$72 per month**. The cost depends on your loan balance.
What is the maximum benefit amount?	This product only covers the first $100,000 of the outstanding balance on your loan. You will be responsible for any balance due above $100,000.
Can I receive benefits?	**You may not receive any benefits even if you buy this product**. You meet the age eligibility requirements, but there are other requirements that you must meet. If you do not meet these requirements, you will not receive any benefits even if you buy this product and pay the monthly premium.
How long does the coverage last?	This product provides coverage for the first 10 years of your loan or until you reach age 70, whichever comes first.

☐ Yes, I want to purchase optional Credit Life Insurance at a cost of up to $72 per month.

____
Signature

Appendix: Participant Demographics
(Self Reported):

Attribute	%
Decision Maker	
Primary	56%
Joint	44%
Gender	
Male	45%
Female	55%
Age	
18 - 30	20%
31 - 40	25%
41 - 50	25%
51 - 60	31%
Income	
Less than $25,000	18%
$25,000 - $49,999	30%
$50,000 - $74,999	22%
$75,000 - $99,999	15%
$100,000 - $124,999	8%
$125,000 or more	7%
Presence of Minor	
None	62%
1 or More	38%

Attribute	%
Employment Status	
Employed Full-time	48%
Employed Part-time	10%
Self Employed Full-time	4%
Self Employed Part-time	2%
Unemployed	14%
Homemaker	12%
Retired	10%
Residential Status	
I own a home and currently have a mortgage loan on it	51%
I own a home, but do not currently have a mortgage on my home	15%
I rent my residence	26%
I live with someone (ex. friends or family) and pay little or no rent	7%
Marital Status	
Married	56%
Single	22%
Single, living with partner	8%
Divorced or separated	12%
Widowed	2%

Attribute	%
Education	
Less than high school	2%
High school graduate or GED	18%
Some college or technical school	35%
College graduate	33%
Postgraduate	13%
Ethnicity	
African-American or Black	6%
Hispanic or Latino	5%
Asian	3%
Native American or Pacific Islander	2%
White/Caucasian	83%
Credit Score	
Excellent	36%
Good	31%
Fair	21%
Poor	12%

Participant Demographics (Cont'd)

Attribute	%
In the past two years, I...	
Applied for or obtained a mortgage loan	7%
Refinanced or applied to refinance my home	10%
Applied for or obtained a HELOC (home equity line of credit)	2%
Applied for or obtained an auto loan	16%
Applied for or obtained a personal loan	7%
Have been turned down for credit or discouraged from applying for credit	11%
In the past ten years, I...	
Applied for or obtained a mortgage loan	28%
Refinanced or applied to refinance my home	19%
Applied for or obtained a HELOC (home equity line of credit)	7%
Applied for or obtained an auto loan	33%
Applied for or obtained a personal loan	12%
Have been turned down for credit or discouraged from applying for credit	9%
In the past seven years, I...	
Have experienced one of the following financial hardships: bankruptcy, foreclosure, repossession or a tax lien	**8%**
The highest interest rate I currently have on a home or auto loan...	
Is 7.0% or lower	43%
Is greater than 7.0%	10%
I do not know the interest rate on my home and/or auto loan	9%
None of the above situations apply to me	30%

A Study of Claim Costs by Age

and the Effect of Bundling On

Credit Card Debt Protection Products

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and

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Hause Actuarial Solutions, Inc

December 13, 2010

Abstract

Credit protection products are frequently offered as a value added product by the credit card lending industry. There are two types of protection products offered; credit insurance products and debt protection products. Debt protection products are regulated as banking products while credit insurance products are regulated as insurance products. The majority of offers made for credit card accounts are in the form of a package of debt cancellation protection features that protect against the financial impact of a variety of life events.

Recently, attention has focused on the fact that these banking products are offered nearly exclusively as a package of protections, intended to cover the major reasons for temporary or permanent impairment of a credit card borrower's ability to pay off their debt (e.g. loss of life, unemployment, disability, hospitalization, leave of absence, divorce, etc.). The practice of offering a package of protections whereby a credit card borrower elects to purchase or reject an entire package of protections is commonly referred to as "bundling."

Some critics have expressed concern that credit card borrowers may not be eligible for ALL benefits and; therefore, are being treated inequitably. For example, borrowers who are older and/or no longer employed are not eligible for benefits that are related to employment, such as disability, unemployment or leave of absence benefits.

This paper seeks to address these bundling concerns by quantifying the benefit costs of a sample package of debt cancellation protections and illustrate the developed benefit costs by age in order to demonstrate the equitable results of bundling credit card-related debt protections regardless of the age of a credit card borrower.

Definition and History of Bundling

The term "bundling" as used within the debt protection industry and within this report refers to debt cancellation products that are sold as a single package of protections. The borrower either must accept or reject the entire package of protections, and no option is available to elect only certain or individual protections.

It should be noted that "bundling" of coverages is not at all unique to credit insurance and debt protection products. Many types of health and property coverages include a standard set of benefits for which not all purchasers will qualify. For example, group health insurance generally includes maternity benefits even though many individuals may be unable to qualify due to gender or fertility issues. Homeowner's insurance policies provide coverage for appurtenant structures even though many homeowners have none.

Credit Insurance Products

The bundling coverages for credit cards have existed for quite some time. Prior to the product innovations associated with debt protection products, packages of coverages were offered within the credit insurance product environment and have been fully supported by the regulatory structure that governs these insurance products. Certain states have recognized, and even adopted special regulations specific to bundled credit insurance products. New York and Pennsylvania, for instance, promulgate different prima facie (state-specified) premium rates for credit insurance products that are "bundled" according to their definitions.

Generally, credit life, credit disability, credit family leave, and credit involuntary unemployment insurance coverages have been bundled together as a single package[1]. Since credit insurance products are regulated at the state level, the specific products, features, and rates varied from state-to-state; however, the concept was the same. The challenge was to create consistency in benefits and rates to simplify the sale and servicing of these products across a national lending platform.

Debt Cancellation Products

With the emergence of debt protection products, reinforced by the adoption of the Office of Comptroller of the Currency (OCC) Debt Cancellation / Suspension Guidelines in 2003, the vast majority of credit card programs are written as debt cancellation or debt suspension products. Most credit card insurance programs are in runoff status with new solicitations offered as debt cancellation protection.

The change from insurance products to debt cancellation protection brought about two major effects in the benefits and the pricing. First, a single nationwide rate could now be charged, which was less confusing for consumers and simplified the administration of the product. Second, additional benefits were added to the protections that did not exist under the credit insurance product structure. Examples of additional protections include "Life Events" such as birth / adoption of a child, marriage or divorce, natural disaster, hospitalization, confinement to a nursing home, call to active military duty, and others that impact the consumer's ability to repay credit card debt.

As financial institutions examined the reasons that borrowers become delinquent or default on the credit card accounts, additional benefits that provide value to consumers were included and the concept of creating protection bundles made more and more sense. Attempting to sell each of these protections on a stand-alone basis would be logistically impossible and endlessly confusing to the consumer. The offering of a multitude of plan options produces situations that can lead to confusion and frustration for consumers. Consumers who thought they purchased one or more benefits may be disappointed when they find that a certain covered event was not elected at inception since they did not make the right choices.

[1] There are some disability protections that are not tied to employment, but are instead related to the ability to perform ordinary life functions. These types of benefits do provide benefits for individuals who are not employed full-time. However, they are not considered in this paper.

As the number of protected events increased, it became almost a statistical certainty that no single person could be eligible for all benefits. For instance a single person would not be eligible for divorce protection. Conversely, a person who is already married would not be eligible for a marriage benefit. An elderly retired individual may not be eligible for disability or involuntary unemployment benefits; however, the probability of death or hospitalization grows substantially with increasing age.

It is also worth noting that this coverage can be carried for many years and potentially throughout a borrower's life. Borrowers who may be initially ineligible for certain coverages due to employment status may become eligible after re-entering the work force or ceasing to be self-employed. The bundled aspect of credit card coverage provides protection when status changes without requiring future enrollment.

Another distinguishing characteristic of debt protection packages for credit cards is that the products are offered on the basis of one rate for all individuals regardless of age, health, gender, and occupation. Many benefits, most notably the death benefits, become more expensive with the advancing age of the insured. But this is not universal; some protections are reasonably level across all ages, some may increase slowly, and some actually decrease as we age. For example, with unemployment insurance, younger individuals can be more likely to suffer job loss than older, tenured workers. The probabilities of marriage and child birth decrease with age. Divorce, which is a major cause of loan defaults affects all age groups but does decrease with age and clearly cannot be offered on a stand-alone basis.

One of the risks in offering protection to a large group of individuals over a diverse geographic area is that the population of covered individuals may differ from the pricing models. Unanticipated concentrations of age, gender and other risk factors can potentially threaten the soundness of the product from a pricing and loss recognition standpoint.

Debt cancellation product pricing soundness is important because of the safety and soundness requirements for financial institution debt cancellation programs as set out in the OCC debt cancellation regulation, Section 37.8.

This paper deals only with bundling as it pertains to debt cancellation products on credit card portfolios. Theoretical claim costs are developed for a model plan of credit card debt cancellation protection and demonstrate the relative cost of providing the model protections to various age groups.

Design and Pricing Principles

The following are basic and sound principles of design and pricing that pertain to these types of coverage.

1. The development of a set of benefits that produces a reasonably level total expected claim cost across all ages is preferable to one that produces steep or skewed claim costs by age. This especially applies where there is no age limit on coverage and little or no risk selection is applied.

2. Any given consumer will act in his own perceived best interest. If coverages were "unbundled," only those with the highest risk of claim will elect the coverage. This will increase the cost of providing the coverage for several reasons.
    a. The pool of insureds is smaller and subject to less statistical credibility.
    b. The administrative costs per covered individual will be higher.
    c. The benefit cost per insured individual will be higher.
3. Increasing the number of covered borrowers lowers the variability. Lowering the risk of variability in claim costs lowers the level of necessary margin in pricing as well as reserving.
4. A single benefit plan priced at a single rate for all ages of borrower is preferable and more beneficial to consumers than splitting the insured population into age segments for benefit and/or rating purposes.
5. Benefits that are bundled provide economies of scale. Many of the benefits currently offered could not be economically provided on a stand-alone basis.

Approach of this Paper

Since the number of debt cancellation product protection combinations is so great, we have taken the approach of examining the relative claim cost of a typical set of core protections (the "Plan"). We develop the costs of benefits for each protection by age grouping based on the best available and current data.

Finally, we combine the claim costs and show the results numerically and graphically to help the reader visualize how the total benefits of the Plan vary by age group.

One of the primary challenges in performing this study is the effect that the borrower's perceived ineligibility may have on their decision to purchase the bundled protections debt cancellation product. For that reason, we will look at various levels of eligibility of borrowers for certain employment-based protections.

The package of protections that we examine for the illustration is described as follows:

Event Trigger	Benefit Amount
All Cause Death	Cancellation of Outstanding Balance
All Cause Disability	Cancellation of Minimum Monthly Payment for up to 12 Months; 30-day waiting period
Involuntary Unemployment	Cancellation of Minimum Monthly Payment for up to 12 Months; 30-day waiting period
Leave of Absence	Cancellation of Minimum Monthly Payment for up to 12 Months; 30-day waiting period
Hospitalization	Cancellation of Minimum Monthly Payment; 2-day confinement required

Although there are countless designs and benefit structures, we believe this best represents the typical "core benefits" package in use today. While many benefit packages call for the All Cause Death benefit to apply to joint cardholders, we have taken the approach of single life protection for simplicity.

Disclaimer

The reader of this paper is specifically cautioned as to the use of the methods, presentation and claim costs presented in this paper. Nothing in this paper should be construed as an indication or opinion as to how debt cancellation products in general should be priced. The data and results contained herein cannot be construed as an estimate or an indication of the claim costs or experience on any actual debt cancellation program currently in place or contemplated. Each debt cancellation program has unique features as well as demographic and geographic concentrations which may dramatically affect the theoretical and actual claim costs under each unique debt cancellation program.

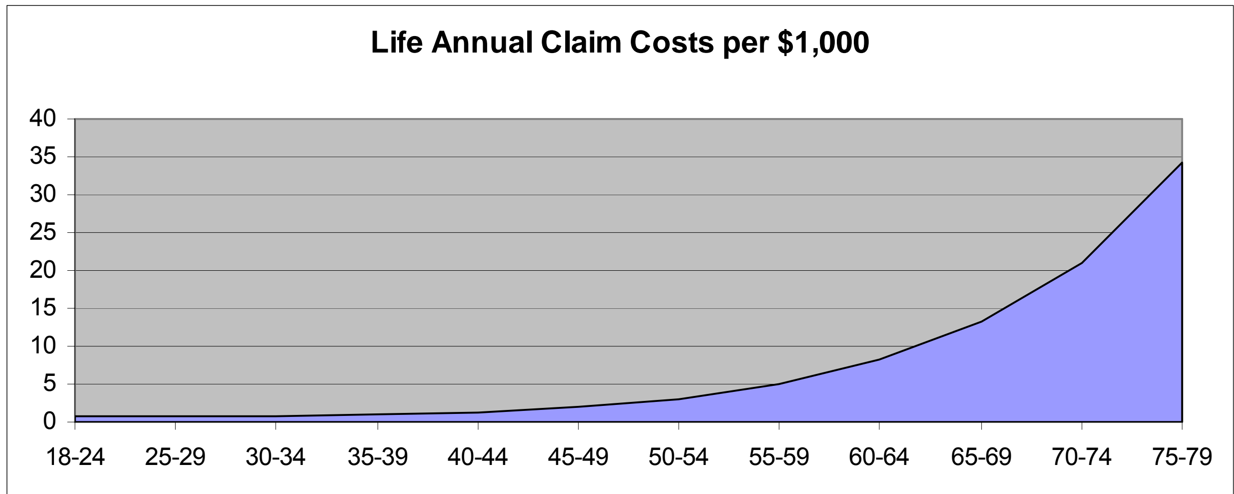
Development of Life Claim Costs

The Society of Actuaries conducts studies from time to time on single premium credit insurance for the purpose of evaluating general levels and trends in credit life mortality. Since these are the most complete intercompany studies of credit life experience, we selected the most recent study as the basis of claim experience for the life protection benefit. Theoretically, since credit life insurance and debt cancellation products provide the same coverage, benefits and experience are expected to be nearly identical to debt cancellation life benefits and experience by age grouping.

While ideally we would have related experience under Single Premium business to credit card experience using data from the Credit Insurance Experience Exhibit, such a conversion was not feasible from available data. We found that separating the credit card protection from other experience reported as Open-End Monthly Outstanding Balance is not feasible, and concluded that differences in experience could easily be more related to age distribution and factors other than age-specific mortality rates.

The 2009 SOA mortality study concluded that the single premium credit life insurance experience is 63.68% of the 2001 CSO Male Composite Ultimate ALB mortality table. The Actual-to-Expected ratios are reasonably consistent by age grouping so we applied this percentage to all ages in developing the claim cost for this benefit.

Age Group	Mortality Rate per $1,000
18-24	.65
25-29	.75
30-34	.73
35-39	.89
40-44	1.31
45-49	2.07
50-54	2.99
55-59	5.06
60-64	8.27
65-69	13.35
70-74	20.98
75-79	34.18



Development of Disability Claim Costs

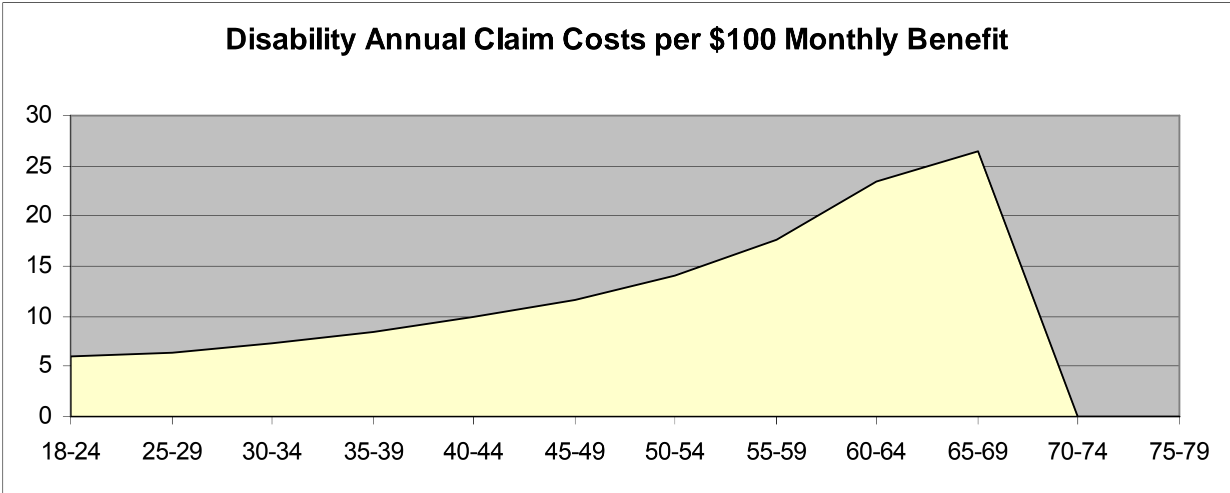
The Society of Actuaries conducts studies from time to time on single premium credit disability insurance for the purpose of evaluating general levels and trends in credit disability morbidity. Since these are the most complete intercompany studies of credit disability experience, we selected the most recent study as the basis of claim experience for the disability protection benefit.

As with the development of life claim costs, ideally we would have related experience under Single Premium credit disability business to credit card experience using data from the Credit Insurance Experience Exhibit. However, such a conversion was not feasible from available data. We found that separating the credit card protection from other experience reported as Open-End Monthly Outstanding Balance is not feasible, and concluded that differences in experience could easily be more related to age distribution and factors other than age-specific morbidity costs.

The 2004 SOA credit disability study concluded that the single premium credit disability insurance experience is 74.5% of the 1985 CIDA table. Actual-to-Expected ratios are not available by age grouping so we applied this percentage to all ages in developing the claim cost for this benefit.

For the purposes of this paper and because data is scant in this area, we assume that the eligibility (and thus the claim cost) over attained age 69 is zero.

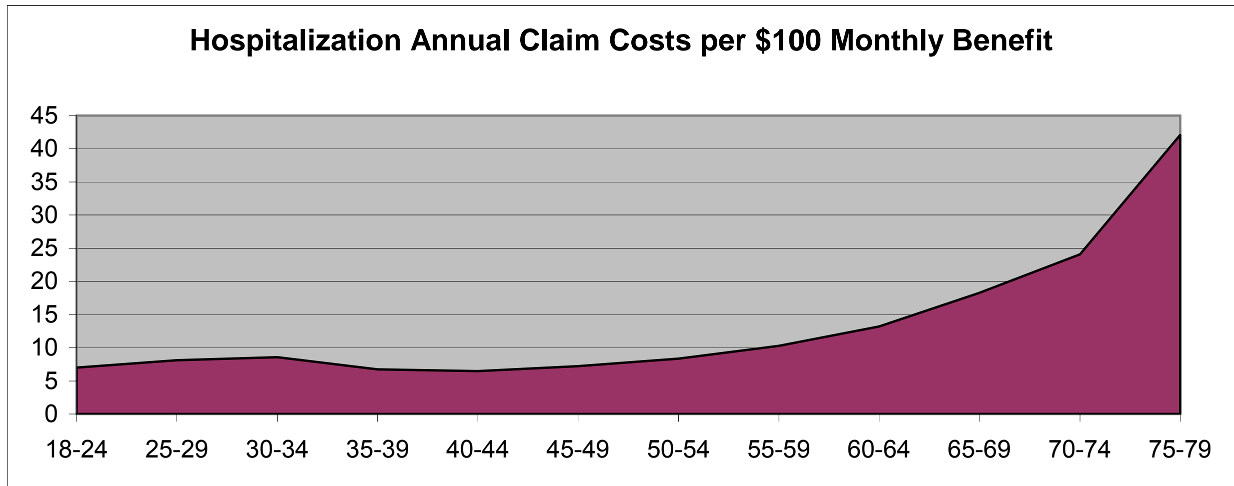
Age Group	Annual Morbidity Cost per $100 Monthly Benefit
18-24	5.98
25-29	6.36
30-34	7.23
35-39	8.44
40-44	9.89
45-49	11.65
50-54	14.00
55-59	17.56
60-64	23.43
65-69	26.44
70+	0.00



Development of Hospitalization Claim Costs

Every year, the US Department of Health and Human Services conducts a hospital discharge survey. The most recent data that is available is from 2007. We combined the continuance of hospital stays with the US population and developed a continuance table by age grouping. The resultant claim costs are shown in the table below.

Age Group	Annual Morbidity Cost per $100 Monthly Benefit
18-24	6.99
25-29	8.12
30-34	8.57
35-39	6.72
40-44	6.45
45-49	7.23
50-54	8.35
55-59	10.29
60-64	13.19
65-69	18.27
70-74	24.11
75-79	42.06



Development of Involuntary Unemployment Claim Costs

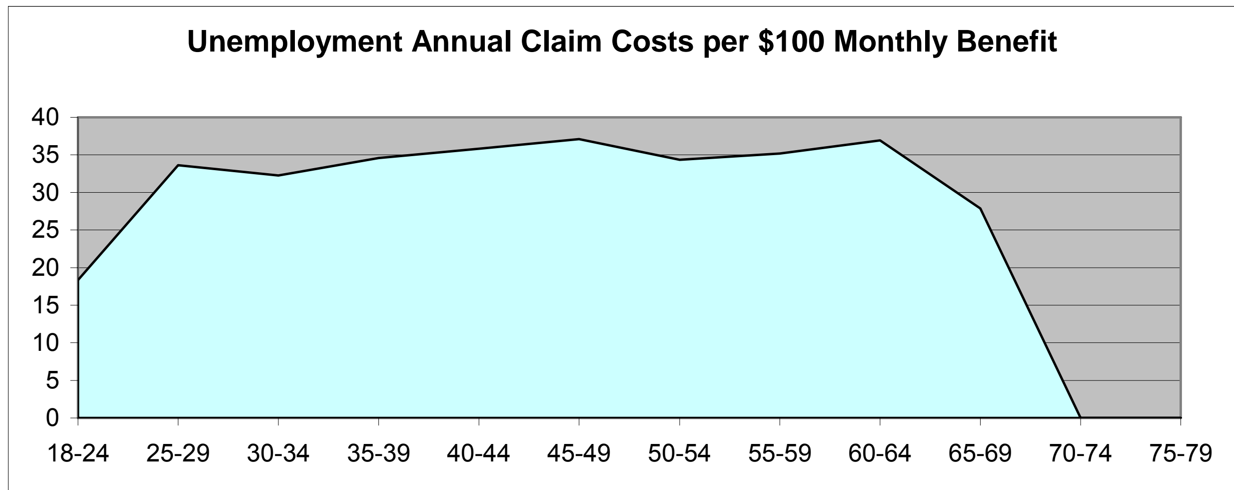
Experience data from two separate sources were considered.

Credit involuntary unemployment experience data is compiled and filed annually by Property and Casualty insurance companies in their respective Credit Insurance Experience Exhibits (CIEE). The experience in these exhibits was considered but was not used due to the lack of age specific data.

Instead, age specific public unemployment data from the United States Department of Labor (DOL), including experience from each state's unemployment insurance program, was used in developing the basic claim cost for this benefit.

As with the development of disability claim costs, we assumed that the eligibility and claim cost over attained age 69 is zero.

Age Group	Annual Involuntary Unemployment Cost per $100 Monthly Benefit
18-24	18.35
25-29	33.61
30-34	32.25
35-39	34.59
40-44	35.81
45-49	37.10
50-54	34.34
55-59	35.18
60-64	36.92
65-69	27.88
70+	0.00

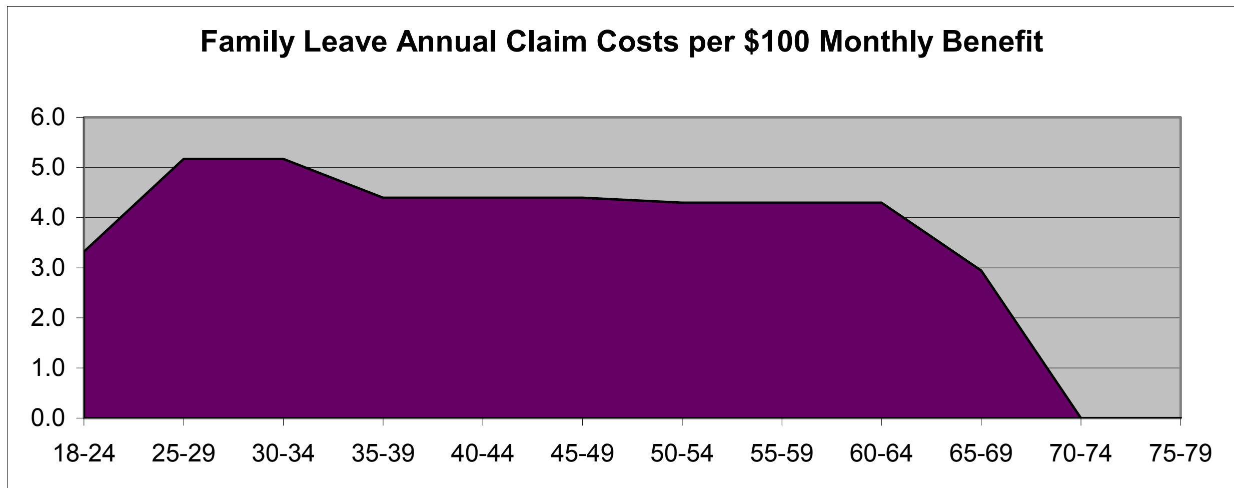


Development of Leave of Absence Claim Costs

The Department of Labor has published two studies, the most recent in 2000, as to the utilization and characteristics of Family Leave benefits actually taken by employees. While these studies may not directly reflect experience under debt cancellation plans, they provide the best available data for our purposes.

Based on the age groupings provided in the report and other available data, the annual claim costs per $100 of monthly benefit are shown in the following table.

Age Group	Annual Claim Cost per $100 Monthly Benefit
18-24	3.32
25-34	5.17
35-49	4.40
50-64	4.30
65-69	2.95
70+	0.00

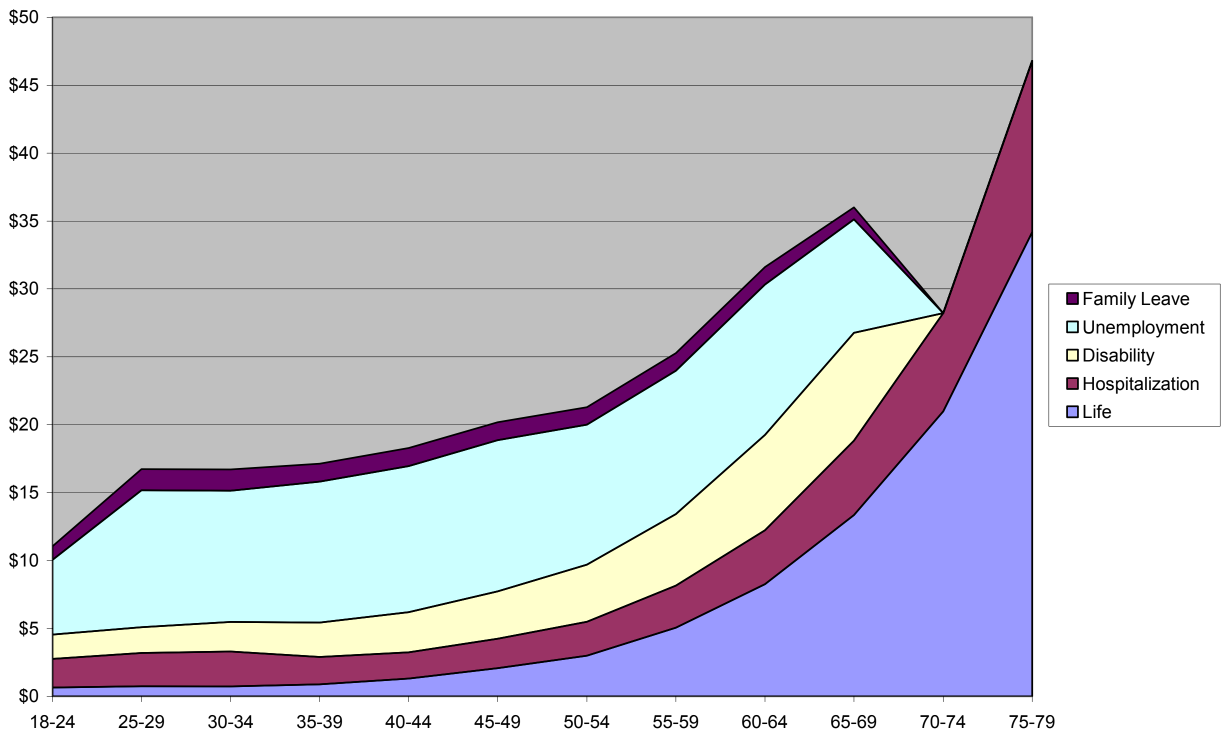


Combined Costs of Bundled Protections

In order to see the effect of combining protections into a single bundled package, we examined the total expected annual claim cost for an outstanding balance of $1,000 (based on 3% minimum payment terms) under three separate cases.

(1) "100% Eligibility" Case

This case study assumes that all borrowers who elect the Plan are eligible for all protections as defined in the Plan addendum to the loan agreement, during their working years. The benefit costs for monthly benefits are adjusted to reflect a benefit equal to the minimum payment, which is typical of this protection. The following graphically illustrates the total benefit cost by age grouping.



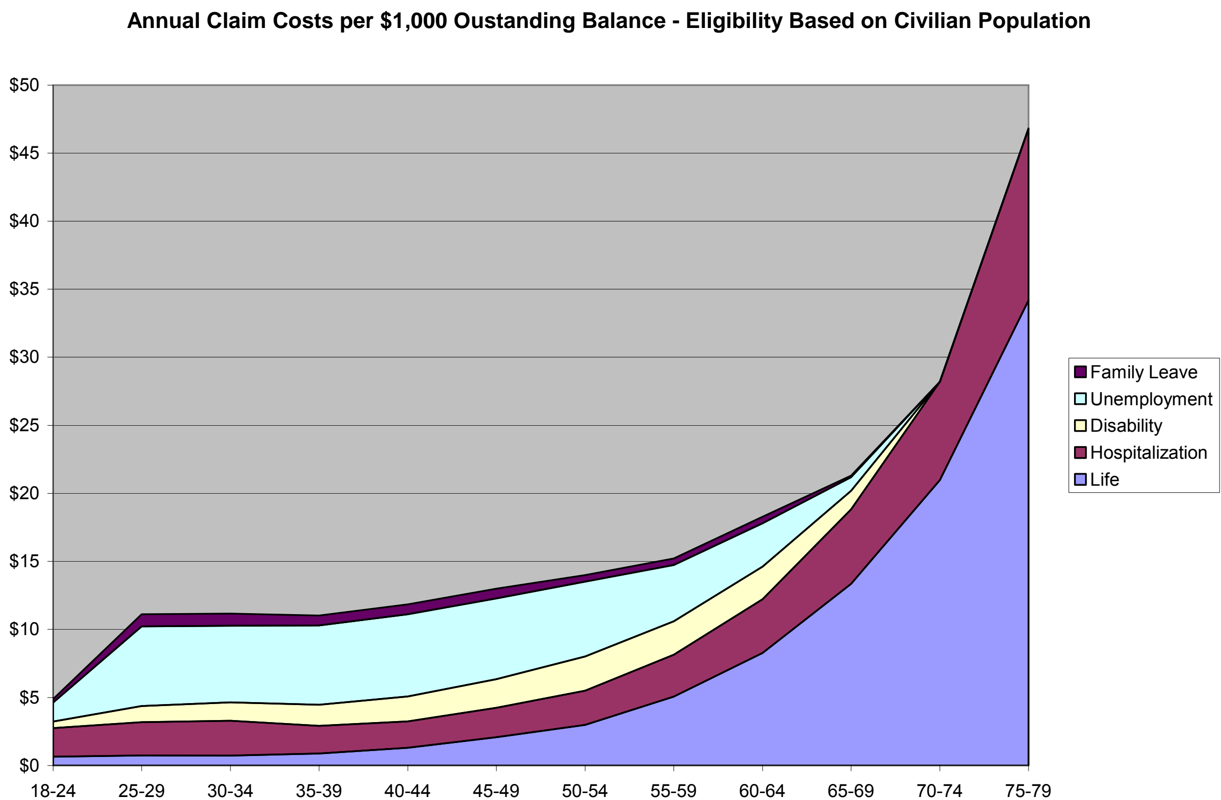
Note that the total benefit cost increases by age, and dips slightly after the age at which we assumed that no one is eligible for the employment-based benefits.

Also note that the total benefit cost is much "flatter" than for the life protection alone. Thus while it is generally considered equitable to charge the same rate for Plan protection for all individuals for life protection, it is even more equitable if the product protection offered is a combination or bundle of protections. Distribution of benefits provides an even more equitable cost across age groups. It is also worth noting that the highest benefit cost occurs at the 75-79 age group (100% retirees), after eligibility for employment-based benefits is assumed to expire.

(2) "Civilian Population" Case

It is clear that some proportion of covered individuals is not eligible for the employment-based benefits in the Plan. At the opposite end of the spectrum from the "100% Eligibility" case, this case assumes that borrowers who elect the Plan are eligible for the various protections in the same proportion as the general population for each age group.

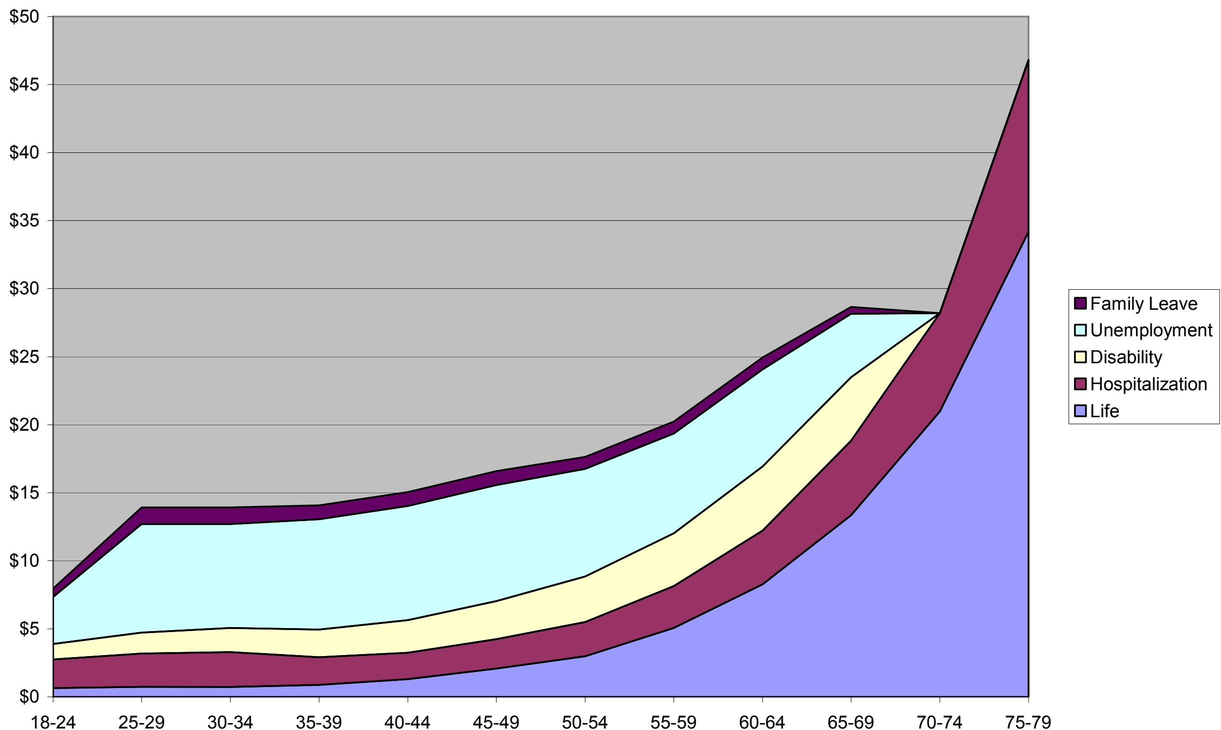
To illustrate this case, we started with the same claim costs as in the previous graph and then adjusted each age group based on the ratio of borrowers who would be eligible for each benefit, based on their employment status. For instance, we have deemed anyone not working full time as ineligible for Disability, Leave of Absence and Unemployment protections. Additionally, since self-employed individuals are routinely excluded from eligibility for Unemployment and Leave of Absence protections, benefit costs for this proportion of individuals are considered to be zero. The following graphically illustrates this revised total benefit cost by age grouping.



Note that the total benefit cost still increases by age, and the increase is more pronounced than the previous graph. There is not a "dip" after the age at which we assumed that no one is eligible for the employment-based benefits because the number of individuals eligible for employment-based protections gradually reduces near normal retirement age. This is also a desirable result from the standpoint of equity between covered individuals. As more people retire and thus become ineligible for certain benefits, the increase in the costs of the Hospitalization and Life benefits "fills in" for the loss of these employment-based benefits.

(3) "Midpoint" Case

While the first graph assumed everyone would be eligible for all protections provided, the second graph assumes that eligibility for Plan protections is reflective of the population at large. It is intuitive that failure to qualify for some of the Plan protections offered will create a disincentive to purchase the Plan. Therefore, it is useful to examine the "midpoint" case between the two extreme cases. Thus, we have taken the adjustment made to the benefit costs to get from graph 1 to graph 2 and cut the effect of it in half. The result is shown below.



Observations

Regardless of which of the above is most representative case, we offer the following observations:

- Benefit costs increase with age and are actually higher after an assumed retirement age of 65. Therefore, it is beneficial to older-age consumers to include advanced age borrowers in a risk pool with younger borrowers, rather than creating a risk pool comprised of advanced age borrowers only.
- Benefit costs for all of the bundled Plan protections collectively are flatter by age than life protection only and life protection combined with hospitalization benefits. Therefore, it is the preferred practice and consistent with the stated Sound Design and Pricing principles to include both younger and advanced age borrowers (65 plus) in a multiple

protections risk pool, rather than segregating borrowers in a single protection high risk pool involving life/hospitalization protection only.

- Retired borrowers of advanced age (65 plus) receive greater amounts of life and hospitalization benefits than younger borrowers of working age. Therefore, it is the preferred practice and consistent with the stated Sound Design and Pricing principles to include both advanced age and younger borrowers of working age in a risk pool for life and hospitalization protections.
- Younger borrowers of working age receive greater amounts of disability, unemployment and family leave benefits than retired borrowers of advanced age (65 plus). Therefore, it is the preferred practice and consistent with the stated Sound Design and Pricing principles to include both advanced age and younger borrowers of working age in a risk pool for disability, unemployment and family leave protections.
- Higher benefit costs means higher costs of credit protection for a borrower. Therefore, to achieve the lowest optimal cost to a borrower for credit protection, bundling of protections is the preferred practice and consistent with the stated Sound Design and Pricing principles.

Conclusions

- Based on the foregoing benefit loss data, high loss of life/hospitalization risk groups, such as advanced age retirees, benefit from a bundled debt cancellation product by lower cost of protections than the costs if those protections were offered only to higher age groups.
- Similarly, high disability, unemployment and family leave risk groups, such as younger borrowers of working age, benefit from a bundled protection debt cancellation product that includes disability, unemployment and family leave protections by lower cost of protections than if those protections were offered individually only.
- "Unbundling" of debt protection products would cause certain benefits currently offered to become less economically feasible and more expensive to consumers if they are offered individually.

Appendices

A: Development of Life Claim Costs
B: Development of Disability Claim Costs
C: Development of Hospitalization Claim Costs
D: Development of Involuntary Unemployment Claim Costs
E: Development of Leave of Absence Claim Costs
F: Development of Civilian Population Adjustments For Disability Claim Costs, Involuntary Unemployment Claim Costs & Leave of Absence Claim Costs
G: Sample Debt Protection Addendum

Appendix A

Development of Life Claim Costs

Appendix	Description
A1	2001 CSO Male Composite Ultimate ALB mortality table
A2	The "experience adjustment" of 63.68% from the results of the 2009 Credit Life Mortality Study
A3	2001 CSO Male Composite Ultimate ALB mortality rates from Appendix A1 adjusted by the experience adjustment from Appendix A2.
A4	The Life Mortality Costs Per $1,000 Outstanding Balance by Quinquennial Age Groups (summarized results from Appendix A3).

Appendix A1

2001 CSO Male Composite Ultimate ALB Table

Age	Mortality Rate	Age	Mortality Rate	Age	Mortality Rate
0	0.72	40	1.72	80	74.02
1	0.46	41	1.87	81	82.20
2	0.33	42	2.05	82	90.82
3	0.24	43	2.27	83	100.22
4	0.21	44	2.52	84	110.69
5	0.21	45	2.77	85	122.36
6	0.22	46	3.03	86	135.17
7	0.22	47	3.25	87	148.99
8	0.22	48	3.42	88	163.66
9	0.23	49	3.64	89	179.03
10	0.24	50	3.91	90	194.28
11	0.28	51	4.26	91	209.27
12	0.34	52	4.70	92	224.94
13	0.40	53	5.21	93	241.46
14	0.52	54	5.83	94	258.86
15	0.66	55	6.52	95	276.12
16	0.78	56	7.26	96	292.95
17	0.89	57	7.95	97	310.86
18	0.95	58	8.63	98	329.95
19	0.98	59	9.42	99	350.32
20	1.00	60	10.40	100	369.76
21	1.01	61	11.59	101	386.96
22	1.02	62	12.98	102	405.25
23	1.04	63	14.47	103	424.70
24	1.06	64	16.04	104	445.35
25	1.09	65	17.65	105	467.29
26	1.14	66	19.27	106	490.57
27	1.17	67	20.96	107	515.28
28	1.16	68	22.74	108	541.49
29	1.15	69	24.69	109	569.27
30	1.14	70	26.94	110	598.70
31	1.13	71	29.71	111	629.88
32	1.14	72	32.94	112	662.87
33	1.16	73	36.32	113	697.78
34	1.19	74	39.96	114	734.68
35	1.24	75	43.95	115	773.66
36	1.31	76	48.44	116	814.78
37	1.39	77	53.67	117	858.15
38	1.49	78	59.72	118	903.81
39	1.59	79	66.48	119	951.67
				120	1,000.00

Report of the Credit Insurance Experience Committee

2009 Credit Life Mortality Study

I. Introduction and Summary Results

The 2009 credit life mortality study covers a four-calendar year period, years 2003 - 2006. Death claims incurred during this four-year period and paid by the data collection date were included. The data was primarily collected during the summer and fall of 2008 which would allow a minimum of 18 months following date of death for a claim to be paid. The study was limited to single premium credit life insurance.

Companies that submitted data to the study comprise over 70% of the 2008 credit life net written premium in the United States. The study included a cross section of all major distribution systems including automobile dealer, retail, bank, credit union and finance company-produced business.

The expected mortality table was the 2001 Commissioner Standard Ordinary Ultimate Male Age Last Birthday Mortality Table (2001 CSO), which is the current valuation standard for credit life insurance for the majority of states. The overall result of the study is that the Actual-to-Expected (A/E) Ratio was 63.68% when measured by amount of insurance and 63.41% by number of contracts.

Appendix A3
2001 CSO Male Composite Ultimate ALB Mortality Table
Adjusted For Experience

Experience Adjustment 63.68%

Age	Adjusted Mortality Rate
0	0.46
1	0.29
2	0.21
3	0.15
4	0.13
5	0.13
6	0.14
7	0.14
8	0.14
9	0.15
10	0.15
11	0.18
12	0.22
13	0.25
14	0.33
15	0.42
16	0.50
17	0.57
18	0.60
19	0.62
20	0.64
21	0.64
22	**0.65**
23	0.66
24	0.68
25	0.69
26	0.73
27	**0.75**
28	0.74
29	0.73
30	0.73
31	0.72
32	**0.73**
33	0.74
34	0.76
35	0.79
36	0.83
37	**0.89**
38	0.95
39	1.01

Age	Adjusted Mortality Rate
40	1.10
41	1.19
42	**1.31**
43	1.45
44	1.60
45	1.76
46	1.93
47	**2.07**
48	2.18
49	2.32
50	2.49
51	2.71
52	**2.99**
53	3.32
54	3.71
55	4.15
56	4.62
57	**5.06**
58	5.50
59	6.00
60	6.62
61	7.38
62	**8.27**
63	9.21
64	10.21
65	11.24
66	12.27
67	**13.35**
68	14.48
69	15.72
70	17.16
71	18.92
72	**20.98**
73	23.13
74	25.45
75	27.99
76	30.85
77	**34.18**
78	38.03
79	42.33

Age	Adjusted Mortality Rate
80	47.14
81	52.34
82	57.83
83	63.82
84	70.49
85	77.92
86	86.08
87	94.88
88	104.22
89	114.01
90	123.72
91	133.26
92	143.24
93	153.76
94	164.84
95	175.83
96	186.55
97	197.96
98	210.11
99	223.08
100	235.46
101	246.42
102	258.06
103	270.45
104	283.60
105	297.57
106	312.39
107	328.13
108	344.82
109	362.51
110	381.25
111	401.11
112	422.12
113	444.35
114	467.84
115	492.67
116	518.85
117	546.47
118	575.55
119	606.02
120	636.80

Appendix A4
Life Mortality Costs Per $1,000 Outstanding Balance
Quinquennial Age Groups

Age Group	Central Age	Mortality Rate per $1,000
18-24	22	0.65
25-29	27	0.75
30-34	32	0.73
35-39	37	0.89
40-44	42	1.31
45-49	47	2.07
50-54	52	2.99
55-59	57	5.06
60-64	62	8.27
65-69	67	13.35
70-74	72	20.98
75-79	77	34.18

Appendix B

Development of Disability Claim Costs

Appendix	Description
B1	The 1985 CIDA claim costs per $100 monthly benefit for 30-day elimination period and 12-month maximum benefit period for all occupation class / gender types.
B2	The distribution by occupation class and the "actual to expected" experience adjustment factor from page 6 of the 2004 Credit Disability Study Report.
B3	The occupation class distribution and the "actual to expected" experience adjustment factor from Appendix B2. It also contains the gender distribution assumption.
B4	The composite adjusted morbidity costs per $100 monthly benefit which were calculated from the data found in Appendices B1 and B3. Appendix B4 also contains a sample calculation for age 42.
B5	The Disability Morbidity Costs Per $100 Monthly Benefit by Quinquennial Age Groups (Since age 64 was the highest age in the table in Appendix B4, it's morbidity cost was used for central age 67).

Appendix B1

1985 CIDA Claim Costs for 30-Day Elimination and 12-Month Maximum Benefit Period

Per $100 Monthly Benefit

	Occupation Class 1		Occupation Class 2		Occupation Class 3		Occupation Class 4	
Age	Male	Female	Male	Female	Male	Female	Male	Female
20	2.88	5.41	6.14	9.03	10.67	11.41	11.78	13.02
21	2.91	5.44	6.21	9.09	10.78	11.49	11.90	13.10
22	2.94	5.48	6.28	9.16	10.90	11.57	12.02	13.18
23	2.97	5.51	6.35	9.22	11.02	11.65	12.15	13.26
24	3.01	5.55	6.42	9.28	11.15	11.73	12.28	13.35
25	3.04	5.58	6.50	9.35	11.27	11.81	12.40	13.43
26	2.95	5.62	6.44	9.53	11.45	12.22	12.73	13.87
27	2.89	5.76	6.42	9.82	11.61	12.72	13.02	14.39
28	2.86	6.00	6.45	10.20	11.78	13.29	13.28	14.98
29	2.86	6.30	6.51	10.67	11.93	13.92	13.50	15.64
30	2.88	6.67	6.62	11.21	12.09	14.59	13.70	16.34
31	2.93	7.09	6.76	11.80	12.25	15.30	13.89	17.08
32	3.01	7.54	6.94	12.42	12.42	16.03	14.07	17.85
33	3.10	8.02	7.15	13.08	12.60	16.78	14.24	18.64
34	3.22	8.51	7.39	13.74	12.79	17.54	14.42	19.43
35	3.35	9.02	7.66	14.42	13.00	18.30	14.62	20.23
36	3.50	9.52	7.97	15.09	13.23	19.05	14.83	21.03
37	3.68	10.01	8.30	15.74	13.49	19.79	15.07	21.81
38	3.87	10.48	8.65	16.38	13.77	20.51	15.33	22.57
39	4.08	10.93	9.04	16.99	14.08	21.21	15.64	23.31
40	4.31	11.35	9.45	17.57	14.43	21.88	15.99	24.02
41	4.56	11.75	9.88	18.11	14.82	22.51	16.38	24.70
42	4.82	12.11	10.35	18.61	15.25	23.11	16.83	25.35
43	5.11	12.43	10.84	19.06	15.73	23.68	17.35	25.96
44	5.43	12.72	11.35	19.48	16.26	24.20	17.92	26.53
45	5.77	12.97	11.90	19.85	16.85	24.69	18.57	27.06
46	6.13	13.19	12.47	20.18	17.50	25.15	19.30	27.57
47	6.52	13.38	13.07	20.48	18.21	25.57	20.10	28.04
48	6.95	13.54	13.71	20.75	18.99	25.97	20.99	28.48
49	7.41	13.69	14.38	21.01	19.84	26.35	21.96	28.91
50	7.91	13.83	15.09	21.25	20.78	26.71	23.03	29.33
51	8.46	13.97	15.84	21.49	21.80	27.08	24.19	29.75
52	9.05	14.12	16.64	21.76	22.91	27.45	25.45	30.18
53	9.70	14.30	17.49	22.06	24.11	27.84	26.82	30.64
54	10.40	14.53	18.39	22.41	25.42	28.28	28.30	31.15
55	11.17	14.82	19.36	22.85	26.84	28.77	29.88	31.72
56	12.02	15.19	20.39	23.39	28.38	29.34	31.58	32.38
57	12.94	15.68	21.51	24.08	30.05	30.02	33.40	33.16
58	13.96	16.31	22.71	24.93	31.85	30.83	35.34	34.08
59	15.07	17.11	24.00	26.00	33.80	31.80	37.41	35.19
60	16.28	18.12	25.40	27.32	35.90	32.98	39.61	36.51
61	17.62	19.37	26.93	28.95	38.18	34.39	41.94	38.10
62	19.09	20.90	28.59	30.93	40.65	36.09	44.42	40.01
63	20.60	22.49	30.30	32.98	43.20	37.84	47.00	41.98
64	22.15	24.11	32.06	35.10	45.84	39.65	49.67	44.01

Credit Disability Study - An Update of the 1997 CCIA Study

The Credit Insurance Experience Committee of
The Society of Actuaries
July, 2005

In 1998, the Actuarial Committee of the Consumer Credit Insurance Association (CCIA) decided the industry needed a credit disability morbidity table, one that could be used for valuation and pricing.

The existing tables at the time were the NAIC's (National Association of Insurance Commissioners) 1968 and the 1974 credit disability tables. Both tables were created with all ages and both genders combined. A sub committee consisting of Robert Butler, chairman, Christopher Hause, Steve Ostlund and Craig Squier was formed to develop the new table.

The end result of the effort was a recommendation to the NAIC to adopt a modified and aggregated version the 1985 CIDA table as a valuation standard for single premium credit disability active life reserves. The NAIC adopted changes to SSAP 59, the Model A&H Valuation Regulation and Appendix A-010 to the Accounting Practices and Procedures Manual in order to implement the new standard.

The use of the modified 1985 CIDA table as a tool for pricing of basic, full benefit, and prima facie equivalency demonstrations of alternative disability benefits has taken hold on an ad hoc basis only.

Reasons for an Updated Study

Some states have existing specific laws and regulations pertaining to credit disability that generally require a gross unearned premium reserve. As states begin to adopt the new morbidity-based standard via law or regulation, concern has been expressed that the table remains adequate.

In addition, the enactment in 2001 of the Home Owner's Equity Protection Act (HOEPA) has curtailed the writing of single premium credit disability insurance on loans secured by real estate. While it is too early to determine the effect on claim costs, the Committee took advantage of the opportunity to examine the shift in the distribution of sales by term between contracts issued in 2000 and contracts issued in 2003.

How the Study was Carried Out

The basic approach to the study was the same as in the 1997 study. An actual-to-expected ratio was determined as follows.

The "actual" claim cost for each plan is derived by calculating a loss cost for each state based on the prima facie loss ratio, for each year 1997-2002 during the study period. The "expected" claim cost is based on the 1985 CIDA table, weighted by age and term for each plan. The age and term weightings came from the data submitted by the participating companies. We used the

Occupation	Male	Female
Class 1	26.8%	30.7%
Class 2	19.5%	40.8%
Class 3	29.1%	19.6%
Class 4	24.7%	8.8%

The data has been updated to 2002. That table appears below.

Occupation	Male	Female
Class 1	32.4%	37.1%
Class 2	17.6%	35.5%
Class 3	22.5%	24.3%
Class 4	27.6%	3.1%

It is expected that the credit insurance distribution by occupation mirrors the work force. It has been argued that the lower occupation risks are more likely to purchase credit insurance. It can also be argued that the better occupation risks take out larger loans and that when they do purchase credit insurance the larger loan offsets this bias.

For each elimination period there are 8 tables containing number of disabled lives by age at disablement and duration of claim through 20 years. Using each distribution by occupation above and assuming 70% male a composite table was produced. From this composite table net single premiums were computed for each of the 5 elimination period plans of insurance. Net single premiums were computed for each age at disablement. Under this calculation the resulting net single premiums assume the insured remains the same age throughout the period of coverage. From these net single premiums, a second set of net single premiums was created where the insured ages throughout the period of coverage. The cost for each yearly advance in age was linearly interpolated between the central ages in each 5 year age bracket.

Comparison to the Blended 1985 CIDA

Using the net single premiums computed above, a net single premium was determined by weighting all ages and all terms using the distribution from the survey. We then compared this to the weighted claim cost of the industry experience for the calendar years 1997 through 2002 combined.

Comparison Based on 2002 Occupation Class Distribution

Plan	Prima Facie Premium Distribution	1985 CIDA Net Single Premiums Assuming No Aging	1985 CIDA Net Single Premiums Assuming Aging	1997 - 2002 Experience Claim Cost	Actual to Expected w/Aging
7-day retroactive	16.2%	2.83	2.95	1.92	65.1%
14-day retroactive	70.9%	2.57	2.73	1.95	71.4%
14-day elimination	2.4%	2.25	2.38	2.63	110.7%
30-day retroactive	6.4%	1.99	2.19	2.47	112.7%
30-day elimination	4.2%	1.47	1.58	1.90	120.3%
Total	100.0%	2.52	2.67	1.99	74.5%

Appendix B3

Occupation Class & Gender Distribution
Experience Adjustment Factor

Gender **	Male	Female
	70.00%	30.00%

Occupation *	Male	Female
Class 1	32.30%	37.10%
Class 2	17.60%	35.50%
Class 3	22.50%	24.30%
Class 4	27.60%	3.10%

Experience Adjustment Factor *	74.50%

* From Appendix B2 - 2004 Credit Disability Study Report - Page 6

** Based on a sampling of companies participating in the 1997 Disability Study.

Appendix B4

Composite Adjusted Disability Morbidity Costs Per $100 Monthly Benefit

Age	Composite Adjusted Claim Costs
20	5.87
21	5.92
22	5.98
23	6.04
24	6.10
25	6.15
26	6.25
27	6.36
28	6.50
29	6.66
30	6.83
31	7.02
32	7.23
33	7.45
34	7.68
35	7.92
36	8.17
37	8.44
38	8.71
39	8.99
40	9.28
41	9.58
42	**9.89**

Age	Composite Adjusted Claim Costs
43	10.21
44	10.54
45	10.89
46	11.26
47	11.65
48	12.06
49	12.49
50	12.96
51	13.46
52	14.00
53	14.59
54	15.23
55	15.93
56	16.70
57	17.56
58	18.50
59	19.54
60	20.70
61	21.99
62	23.43
63	24.91
64	26.44

Sample Calculation: Age 42

Occ/Sex	Sex % * (1)	Occ Class % * (2)	Exp Adjust % * (3)	Unadjusted Clm Cost ** (4)	Composite Adjusted Clm Cost (5): (1)x(2)x(3)x(4)
M1	70.00%	32.30%	74.50%	4.82	0.81
F1	30.00%	37.10%	74.50%	12.11	1.00
M2	70.00%	17.60%	74.50%	10.35	0.95
F2	30.00%	35.50%	74.50%	18.61	1.48
M3	70.00%	22.50%	74.50%	15.25	1.79
F3	30.00%	24.30%	74.50%	23.11	1.26
M4	70.00%	27.60%	74.50%	16.83	2.42
F4	30.00%	3.10%	74.50%	25.35	0.18
				SUM	**9.89**

* From Appendix B3 - Occupation Class & Gender Distribution, Experience Adjustment Factor

** From Appendix B1 - 1985 CIDA Claim Costs for 30-Day Elimination and 12-Month Maximum Benefit Period

Appendix B5

Disability Morbidity Costs Per $100 Monthly Benefit
Quinquennial Age Groups

Age Group	Central Age	Morbidity Cost Per $100 Benefit
18-24	22	5.98
25-29	27	6.36
30-34	32	7.23
35-39	37	8.44
40-44	42	9.89
45-49	47	11.65
50-54	52	14.00
55-59	57	17.56
60-64	62	23.43
65-69	67	26.44

Appendix C

Development of Hospitalization Claim Costs

Appendix	Description
C1	The Number of People Hospitalized by Number of Days Spent Hospitalized from the 2007 National Hospital Discharge Survey. Statistics were compiled for days 2-10 and day 32 and every 30 days thereafter.
C2	The Employment Status of the 2007 Civilian Noninstitutional Population by Age. Only the first column of statistics titled "Civilian noninstitutional population" was utilized.
C3	The development of hospitalization claim costs.

(a) 2007 Civilian Noninstitutional Population by Age Group from Appendix C2.

(b) 2007 Number of People Hospitalized by Number of Days Spent Hospitalized from Appendix C1.

(c) Number of People Hospitalized by Number of Days Spent Hospitalized As % of Civilian Noninstitutional Population (Incidence Rates) = (b) / (a) / 1000. Every 30 days starting with day 2 denotes a monthly benefit payment. Thus, the sum over all the monthly intervals equals the claim cost (as a %) for each specific age group.

These results were reformatted in the table titled "Hospitalization Annual Morbidity Costs Per $100 Monthly Benefit". No adjustment was made to adjust for a possible overlap in benefits for a qualifying period of hospitalization followed by death, but we believe any potential overlap is immaterial to the study results.

Appendix C1

Number of People Hospitalized by Number of Days Spent Hospitalized by Age Group - 2007

Age	> 1 Day	**> 2 Days**	> 3 Days	> 4 Days	> 5 Days	> 6 Days	> 7 Days	> 8 Days	> 9 Days	> 10 Days
18-24	2,399,993	**1,960,310**	1,084,709	550,805	335,641	239,754	178,839	139,469	114,466	92,553
25-29	1,991,716	**1,662,725**	933,218	467,109	283,273	196,995	143,973	110,631	89,151	78,021
30-34	1,960,585	**1,628,053**	973,661	534,341	324,788	236,324	175,067	137,973	111,701	93,023
35-39	1,667,106	**1,378,829**	909,178	562,256	370,235	262,508	206,359	163,295	135,903	114,043
40-44	1,721,206	**1,378,075**	993,179	691,253	509,540	383,900	296,714	237,346	191,181	163,084
45-49	1,994,610	**1,611,273**	1,188,636	861,374	643,016	506,103	407,788	319,487	264,447	224,192
50-54	2,114,297	**1,715,425**	1,298,616	944,511	707,671	536,112	417,678	330,099	270,795	227,681
55-59	2,239,994	**1,841,920**	1,430,161	1,060,463	799,982	630,877	498,730	396,346	331,369	275,565
60-64	2,231,053	**1,858,929**	1,458,232	1,097,413	828,663	655,979	517,022	422,568	344,708	284,957
65-69	2,305,273	**1,936,344**	1,552,393	1,176,524	893,566	691,435	555,500	440,759	355,965	301,492
70-74	2,350,629	**2,013,908**	1,646,677	1,252,211	968,258	768,619	620,673	497,440	402,421	334,784
75+	8,027,378	**7,113,164**	6,006,917	4,663,769	3,587,680	2,776,752	2,195,698	1,743,219	1,404,905	1,155,021

Age	> 32 Days	> 62 Days	> 92 Days	> 122 Days	> 152 Days	> 182 Days	> 212 Days	> 242 Days	> 272 Days	> 302 Days	> 332 Days	> 362 Days	> 392 Days	> 422 Days
18-24				113										
25-29														
30-34	7,824		349		113									
35-39	8,655	2,135	463			51	-	- -	-	-	-	-	-	-
40-44	9,395	2,117	1,103	119	74	49	-	- 48	-	-	-	-	-	-
45-49	10,766	2,692		228	72	48	-	-	-	-	-	-	-	-
50-54	13,426	2,687	768 1,194	470	27		-	- -	-	-	-	-	-	-
55-59	23,336	3,554	1,000	356	225	225	48		48	48	48	48	-	-
60-64	19,364	2,718	1,219	431	364	51		33	-	-	-	-	-	-
65-69	21,577	4,421	1,961	934 1,218	683	429	429		162	-	-	-	-	-
70-74	25,075	4,437	1,190		338	338	338	338		-	-	-	-	-
75+	17,548	4,233		691	225	33	33	- - 68	33	33	33	33	33	-
	22,069	2,158	407	170	52	-	-		-	-	-	-	-	-
	52,768	3,207	709 2,490	146		91	37		-	-	-	-	-	-
		5,645		485	412	135	135		68	68	68	-	-	-

Source: 2007 National Hospital Discharge Survey, Public-Use Data Files
http://www.cdc.gov/nchs/nhds.htm

Appendix C2

Employment Status of the Civilian Noninstitutional Population in 1,000's by Age Group

Age	2007							
	Civilian noninsti-tutional population	Civilian Labor Force						Not in labor force
		Total	Percent of population	Employed		Unemployed		
				Total	Percent of population	Number	Percent of labor force	
16 years and over	231,867	153,124	66.0	146,047	63.0	7,078	4.6	78,743
16 to 19 years	16,982	7,012	41.3	5,911	34.8	1,101	15.7	9,970
16 to 17 years	9,222	2,771	30.0	2,286	24.8	485	17.5	6,451
18 to 19 years	**7,760**	4,242	54.7	3,625	46.7	616	14.5	3,519
20 to 24 years	**20,427**	15,205	74.4	13,964	68.4	1,241	8.2	5,223
25 to 54 years	125,696	104,353	83.0	100,450	79.9	3,904	3.7	21,343
25 to 34 years	39,751	33,130	83.3	31,586	79.5	1,544	4.7	6,622
25 to 29 years	**20,607**	17,130	83.1	16,247	78.8	883	5.2	3,477
30 to 34 years	**19,144**	16,000	83.6	15,339	80.1	661	4.1	3,145
35 to 44 years	42,401	35,527	83.8	34,302	80.9	1,225	3.4	6,875
35 to 39 years	**20,738**	17,292	83.4	16,677	80.4	615	3.6	3,446
40 to 44 years	**21,664**	18,235	84.2	17,625	81.4	610	3.3	3,429
45 to 54 years	43,544	35,697	82.0	34,563	79.4	1,135	3.2	7,846
45 to 49 years	**22,661**	18,903	83.4	18,285	80.7	618	3.3	3,758
50 to 54 years	**20,882**	16,795	80.4	16,278	77.9	517	3.1	4,088
55 to 64 years	32,533	20,750	63.8	20,108	61.8	642	3.1	11,783
55 to 59 years	**18,194**	13,104	72.0	12,691	69.8	413	3.1	5,090
60 to 64 years	**14,339**	7,646	53.3	7,417	51.7	229	3.0	6,693
65 years and over	36,228	5,804	16.0	5,614	15.5	190	3.3	30,424
65 to 69 years	**10,708**	3,179	29.7	3,074	28.7	105	3.3	7,529
70 to 74 years	**8,461**	1,457	17.2	1,408	16.6	50	3.4	7,004
75 years and over	**17,059**	1,167	6.8	1,132	6.6	35	3.0	15,892

Source: ftp://ftp.bls.gov/pub/special.requests/lf/aat3.txt

Appendix C3

Hospitalization Claim Costs By Age Group - Per $100 Monthly Benefit

(a) 2007 Civilian Noninstitutional Population in 1,000's by Age Group (See Appendix C2)

Age Group	18-19	20-24	18-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70-74	≥ 75
Civ Pop	7,760	20,427	28,187	20,607	19,144	20,738	21,664	22,661	20,882	18,194	14,339	10,708	8,461	17,059

(b) 2007 Number of People Hospitalized by Number of Days Spent Hospitalized (See Appendix C1)

Age Group	18-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70-74	≥ 75
> 2 Days	1,960,310	1,662,725	1,628,053	1,378,829	1,378,075	1,611,273	1,715,425	1,841,920	1,858,929	1,936,344	2,013,908	7,113,164
> 32 Days	7,824	8,655	9,395	10,766	13,426	23,336	19,364	21,577	25,075	17,548	22,069	52,768
> 62 Days	2,135	2,117	2,692	2,687	3,554	2,718	4,421	4,437	4,233	2,158	3,207	5,645
> 92 Days	349	463	1,103	768	1,194	1,000	1,219	1,961	1,190	407	709	2,490
> 122 Days	113	119	228	470	356	431	934	1,218	691	170	146	485
> 152 Days	113	74	72	27	225	364	683	338	225	52	91	412
> 182 Days	51	49	48	-	225	51	429	338	33	-	91	135
> 212 Days	-	-	-	-	48	-	429	338	33	-	37	135
> 242 Days	-	-	-	-	48	-	-	338	33	-	-	68
> 272 Days	-	-	-	-	48	-	-	162	33	-	-	68
> 302 Days	-	-	-	-	48	-	-	-	33	-	-	68
> 332 Days	-	-	-	-	48	-	-	-	33	-	-	68
> 362 Days	-	-	-	-	48	-	-	-	33	-	-	-
> 392 Days	-	-	-	-	-	-	-	-	33	-	-	-
> 422 Days	-	-	-	-	-	-	-	-	-	-	-	-

Appendix C3

(c) Number of People Hospitalized by Number of Days Spent Hospitalized As %'s of Civilian Noninstitutional Population
(c): (b) / (a) / 1000

Benefit Payment #	Age Group	18-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70-74	≥ 75
1	> 2 Days	6.95%	8.07%	8.50%	6.65%	6.36%	7.11%	8.21%	10.12%	12.96%	18.08%	23.80%	41.70%
2	> 32 Days	0.03%	0.04%	0.05%	0.05%	0.06%	0.10%	0.09%	0.12%	0.17%	0.16%	0.26%	0.31%
3	> 62 Days	0.01%	0.01%	0.01%	0.01%	0.02%	0.01%	0.02%	0.02%	0.03%	0.02%	0.04%	0.03%
4	> 92 Days	0.00%	0.00%	0.01%	0.00%	0.01%	0.00%	0.01%	0.01%	0.01%	0.00%	0.01%	0.01%
5	> 122 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%
6	> 152 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
7	> 182 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
8	> 212 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
9	> 242 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
10	> 272 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
11	> 302 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
12	> 332 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
13	> 362 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
14	> 392 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
15	> 422 Days	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	SUM	6.992%	8.124%	8.575%	6.720%	6.450%	7.233%	8.346%	10.293%	13.185%	18.273%	24.114%	42.063%

Hospitalization Annual Morbidity Costs Per $100 Monthly Benefit (Reformatted)		
18-24	**$**	**6.99**
25-29	**$**	**8.12**
30-34	**$**	**8.57**
35-39	**$**	**6.72**
40-44	**$**	**6.45**
45-49	**$**	**7.23**
50-54	**$**	**8.35**
55-59	**$**	**10.29**
60-64	**$**	**13.19**
65-69	**$**	**18.27**
70-74	**$**	**24.11**
75+	**$**	**42.06**

Appendix D

Development of Involuntary Unemployment Claim Costs

Appendix	Description
D1A	Average Monthly 1st Claim Payments & Age Composition %'s
D1B	Average Monthly 1st Payments (By Age Group)
D2A	Covered Employment - By Age Group
D2B	Average Monthly Incidence Rate Derivations
D3	Derivation Of Continuance Factors By Monthly Cumulative Persistency
D3A	Unemployed Persons By Age & Duration Of Unemployment
D3B	Continuance Factors By Monthly Cumulative Persistency
D4A	Continuance Table
D4B	Continuance Table Calculation Methodology
D5	Development of Proposed Claim Costs

Sources of Data

United States Department of Labor (DOL)
Population Statistics – Civilian Labor Force Employed
Population Statistics – Non-institutional Unemployed
State Unemployment Insurance Program Data

Description of the Data

Covered Employees: Employees whose wages paid are subject to state unemployment insurance taxes.

Covered Employment: The number of covered employees reported to the states by each employer for the payroll period for calendar years 2000-2009. See Appendix D2A.

Age Composition Characteristics of the Insured Unemployed: % of "average weekly total weeks claims" at each age group for calendar years 2001-2009. See Appendix D1A.

Number of First Payments: The number of first payments is the count of the first unemployment check issued to each claimant during his or her benefit year under a state's unemployment insurance program for calendar years 2000-2009. It was assumed that the insured unemployed was unemployed for 7 days prior to the issuance of the first benefit check. See Appendix D1A.

Civilian Labor Force Employed By Age Group for calendar years 2000-2009. See Appendix D2A.

Non-institutional Unemployed by Age, Sex and Duration of Unemployment. See Appendix D3A.

Development Of The Adjusted Age Composition of the Insured Employed

Appendix D1A contains the adjusted age composition %'s of the "average weekly total weeks claims" of the insured unemployed. The adjustments were a result of the redistribution of the %'s in "INA" across the age groups for each calendar year and conversion from "65&Over" to "65-69". Note that data was not available for calendar year 2000. Thus, the calendar year 2000 age composition %'s were set equal to their 2001 counterparts.

Development Of The Average Monthly 1st Payments – By Age Group

Appendix D1A also contains the "average monthly 1st payments".

The average monthly 1st payments and the age group %'s by calendar year were multiplied to derive the average monthly 1st payments by age group for each calendar year (as shown in Appendix D1B).

Note: The age composition %'s for the average monthly 1st payments were assumed to be similar to those for the "average weekly total weeks claims".

The monthly 1st payments by age group were then averaged over calendar years 2000-2009 and became the numerators for the monthly incidence rate calculations.

Development Of The Covered Employment - By Age Group

Appendix D2A contains the covered employment which was averaged over calendar years 2000-2009.

Appendix D2A also contains the civilian labor force employed by age group. These values by age group were averaged and age group %'s were derived.

The averaged covered employment was multiplied by the average age group %'s to derive average covered employment by age group. These results became the denominators for the monthly incidence rate calculations.

Development Of The 7-Day Monthly Incidence Rates By Age Group

The (1) average monthly 1st payments, (2) average covered employment, and (3) average monthly incidence rates, all by age group, from Appendix D2B were reproduced below.

7-Day Average Monthly Incidence Rates For Each Age Group = (1) / [(2)x1,000].

Age Group	Avg Mo. Payments	Covered Employment (In 1000's)	Avg Mo. Incidence Rate
18-24	74,864	18,255	.410%
25-34	189,174	28,758	.658%
35-44	209,254	32,249	.649%
45-54	186,062	30,506	.610%
55-59	61,834	10,580	.584%
60-64	36,911	6,021	.613%
65-69	12,343	2,560	.482%
All Ages	770,442	128,929	.598%

Any differences in the summary results from those in Appendix D2B were due to rounding. In addition, as noted in the Description of the Data section, it was assumed that the insured unemployed was unemployed for 7 days prior to the issuance of the first benefit check.

Development Of Unemployment Continuance Factors

Appendix D3A contains non-institutional unemployed persons by age group and duration of unemployment for 2003 - 2009. Duration interval "27 weeks and over" was split between "27-51 weeks" and "52 weeks and over". The sources for both sets of data can be found in the Appendix. For each duration interval within each age group, durational % distributions were derived.

Each duration interval was converted to number of days. Then the %'s for each durational interval by age group were divided by the number of days within each interval to yield the % recovering each day within that interval (P1U(d). The % remaining unemployed % for each day (P2U(d)) was derived:
P2U(t) = P2U(t-1) – P1U(t).

Note: The results described above were based on a stationary population assumption.

The % remaining unemployed at 30 day intervals were designated as the monthly continuance factors. Note: Since the 1st payment was assumed to occur 7 days after the unemployment incurral date, the 1st month only contained 23 days.

Appendix D3B contains a summary of the monthly continuance factors by age group which were developed as described above.

Development of the Average Duration of Claims

The monthly continuance factors by age group from Appendix D3B were inserted into the Continuance Tables. Appendix D4A displays the Continuance Table for "All Ages" as an example.

The methodology for the development of the "average duration of claims by age group" (column 13) is contained in Appendix D4B.

Development of the Proposed Claim Costs

The final results (as shown below) and calculation methodology are contained in Appendix D5. To provide a more consistent comparison with the other coverages, the chart below was converted from decennial age ranges to quinquennial age ranges (as shown below).

Age Group	Annual Claim Cost Per $100 Monthly Benefit Payment
Decennial	
18-24	$18.35
25-34	$32.93
35-44	$35.20
45-54	$35.72
55-59	$35.18
60-64	$36.92
65-69	$27.88
All Ages	$30.71

Age Group	Annual Claim Cost Per $100 Monthly Benefit Payment
Quinquennial	
18-24	$18.35
25-29	$33.61
30-34	$32.25
35-39	$34.59
40-44	$35.81
45-49	$37.10
50-54	$34.34
55-59	$35.18
60-64	$36.92
65-69	$27.88
All Ages	$30.71

Appendix D1A - Average Monthly 1st Claim Payments & Age Composition %'s

Year	Average Monthly 1st Payments *	Age Composition **							
		<22	22-24	25-34	35-44	45-54	55-59	60-64	65-69
2000	586,315	3.69%	5.79%	25.81%	29.60%	22.86%	6.95%	4.00%	1.30%
2001	822,349	3.69%	5.79%	25.81%	29.60%	22.86%	6.95%	4.00%	1.30%
2002	841,047	3.56%	5.79%	25.31%	29.07%	23.17%	7.42%	4.27%	1.42%
2003	827,926	3.77%	6.01%	24.66%	28.33%	23.64%	7.64%	4.48%	1.46%
2004	697,385	3.86%	6.10%	24.38%	27.63%	23.88%	7.92%	4.67%	1.55%
2005	659,775	3.98%	6.02%	24.06%	27.12%	24.47%	8.16%	4.59%	1.60%
2006	612,561	3.98%	5.93%	23.50%	26.67%	24.83%	8.48%	4.90%	1.71%
2007	637,720	4.19%	5.93%	23.80%	25.95%	24.93%	8.38%	5.11%	1.72%
2008	838,296	3.89%	5.84%	23.97%	25.10%	25.20%	8.71%	5.43%	1.85%
2009	1,181,069	3.67%	5.92%	24.19%	24.19%	25.21%	9.08%	5.82%	1.92%

* Source: http://workforcesecurity.doleta.gov/unemploy/claimssum.asp
US Department of Labor
Employment & Training Administration (ETA)
State IU Monthly Program and Financial Data
Monthly Average - Summary Results

** Source: http://workforcesecurity.doleta.gov/unemploy/chariu.asp
US Department of Labor
Employment & Training Administration (ETA)
Percent Distribution of Characteristics of the Insured Unemployed

Appendix D1B - Average Monthly 1st Payments (By Age Group)

Year	Average Monthly 1st Payments *	Age Composition **							
		<22	22-24	25-34	35-44	45-54	55-59	60-64	65-69
		Convert %'s To Amts							
2000	586,315	21,615	33,967	151,307	173,540	134,015	40,760	23,468	7,644
2001	822,349	30,317	47,641	212,219	243,402	187,965	57,169	32,916	10,722
2002	841,047	29,917	48,722	212,837	244,463	194,887	62,398	35,900	11,925
2003	827,926	31,215	49,775	204,163	234,534	195,726	63,274	37,120	12,119
2004	697,385	26,924	42,511	170,045	192,718	166,503	55,265	32,592	10,828
2005	659,775	26,237	39,692	158,766	178,948	161,457	53,819	30,273	10,583
2006	612,561	24,409	36,301	143,952	163,355	152,089	51,948	30,042	10,465
2007	637,720	26,712	37,788	151,802	165,484	158,969	53,424	32,576	10,965
2008	838,296	32,636	48,954	200,971	210,418	211,277	73,002	45,519	15,519
2009	1,181,069	43,395	69,914	285,683	285,683	297,738	107,282	68,709	22,665
Average	**770,444**	**29,338**	**45,526**	**189,174**	**209,254**	**186,062**	**61,834**	**36,911**	**12,343**
		Under 25 74,864							

Appendix D2A - Covered Employment - By Age Group

Year	Covered Employment In 1,000's * (1)	Civilian Labor Force Employed (2)	Ratio (3): (1) / (2)	Civilian Labor Force Employed ** < Under 25	25-34	35-44	45-54	55-59	60-64	65-69
2000	124,987	134,961	0.926	20,418	31,548	36,434	30,310	9,046	4,956	2,249
2001	127,740	134,963	0.946	20,088	30,863	36,049	31,036	9,402	5,243	2,282
2002	128,117	134,559	0.952	19,683	30,307	35,235	31,281	10,125	5,549	2,379
2003	126,638	135,643	0.934	19,352	30,383	34,881	31,914	10,685	5,913	2,515
2004	126,175	137,048	0.921	19,630	30,423	34,580	32,469	11,166	6,166	2,614
2005	127,401	139,384	0.914	19,770	30,680	34,630	33,207	11,873	6,476	2,748
2006	129,698	141,994	0.913	20,040	31,051	34,570	34,052	12,551	6,839	2,891
2007	131,911	143,508	0.919	19,875	31,586	34,302	34,563	12,691	7,417	3,074
2008	133,497	142,690	0.936	19,202	31,383	33,457	34,529	12,969	7,843	3,307
2009	133,118	137,144	0.971	17,601	30,014	31,517	33,613	12,887	8,132	3,380
AVG	128,928	138,189	0.933	19,566	30,824	34,566	32,697	11,340	6,453	2,744
			% By Age	14.2%	22.3%	25.0%	23.7%	8.2%	4.7%	2.0%
	128,928	**Average Covered Employment**		**18,255**	**28,758**	**32,249**	**30,506**	**10,580**	**6,021**	**2,560**

* Source: http://workforcesecurity.doleta.gov/unemploy/claims.asp
US Department of Labor
Employment & Training Administration (ETA)
Report R539cy
Unemployment Insurance Weekly Claims Data
Weekly Average - Summary Results

** Source: http://www.bls.gov/data/#employment
<Labor Force Statistics>
<One Screen Data Search>

Appendix D2B - Average Monthly Incidence Rate Derivations

			< Under 25	25-34	35-44	45-54	55-59	60-64	65-69
(1)	**770,444**	**Average Monthly 1st Pymts From Appendix D1B**	**74,864**	**189,174**	**209,254**	**186,062**	**61,834**	**36,911**	**12,343**
(2)	**128,928**	**Average Covered Employment From Appendix D2A (In 1,000's)**	**18,255**	**28,758**	**32,249**	**30,506**	**10,580**	**6,021**	**2,560**
(3) = (1)/(2)/1000	**0.598%**	**Average Monthly Incidence Rate**	**0.410%**	**0.658%**	**0.649%**	**0.610%**	**0.584%**	**0.613%**	**0.482%**

Appendix D3A - Unemployed Persons By Age & Duration Of Unemployment

2003 - 2009

	Less Than 5 Wks	5 To 14 Wks	15 - 26 Wks	27 Wks And Over	All Wks	27 - 51 Wks	52 Wks And Over
Total	19,402	18,281	10,160	13,940	61,783	6,309	7,631
As % "All Wks"	**31.4%**	**29.6%**	**16.4%**	22.6%	100.0%	**10.2%**	**12.4%**
16-19 Yrs	3,717	2,835	1,104	1,046	8,702	471	575
As % "All Wks"	**42.7%**	**32.6%**	**12.7%**	12.0%	100.0%	**5.4%**	**6.6%**
20-24 Yrs	3,734	3,248	1,653	1,855	10,490	839	1,016
As % "All Wks"	**35.6%**	**31.0%**	**15.8%**	17.7%	100.1%	**8.0%**	**9.7%**
25-34 Yrs	4,255	4,197	2,328	2,922	13,702	1,326	1,596
As % "All Wks"	**31.1%**	**30.6%**	**17.0%**	21.3%	100.0%	**9.7%**	**11.6%**
35-44 Yrs	3,283	3,375	2,026	2,938	11,622	1,328	1,610
As % "All Wks"	**28.2%**	**29.0%**	**17.4%**	25.3%	99.9%	**11.4%**	**13.9%**
45-54 Yrs	2,533	2,764	1,837	2,999	10,133	1,355	1,644
As % "All Wks"	**25.0%**	**27.3%**	**18.1%**	29.6%	100.0%	**13.4%**	**16.2%**
55-64 Yrs	1,391	1,454	979	1,729	5,553	785	944
As % "All Wks"	**25.0%**	**26.2%**	**17.6%**	31.1%	99.9%	**14.1%**	**17.0%**
65 Yrs & Over	489	408	233	451	1,581	205	246
As % "All Wks"	**30.9%**	**25.8%**	**14.7%**	28.5%	99.9%	**13.0%**	**15.6%**

Source: ftp://ftp.bls.gov/pub/special.requests/lf/aat31.txt

Source: ftp://ftp.bls.gov/pub/special.requests/lf/aat30.txt

Appendix D3B

Continuance Factors By Monthly Cumulative Persistency

Month (m)	P2U(d) All Ages	P2U(d) < 25 Yrs	P2U(d) 25-34 Yrs	P2U(d) 35-44 Yrs	P2U(d) 45-54 Yrs	P2U(d) 55-64 Yrs	P2U(d) 65 Yrs & Over
1	0.793667	0.752067	0.795622	0.814689	0.835711	0.835711	0.796933
2	0.643087	0.592016	0.646432	0.674743	0.705739	0.709821	0.665781
3	0.516217	0.457094	0.515302	0.550453	0.588739	0.597531	0.555201
4	0.420832	0.363232	0.418780	0.456291	0.496523	0.508553	0.473053
5	0.356932	0.305299	0.352540	0.388491	0.425993	0.439973	0.415783
6	0.293032	0.247366	0.286300	0.320691	0.355463	0.371393	0.358513
7	0.273092	0.223181	0.256910	0.288839	0.320463	0.336055	0.327533
8	0.256292	0.211268	0.240920	0.270059	0.298383	0.312805	0.306113
9	0.239492	0.199355	0.224930	0.251279	0.276303	0.289555	0.284693
10	0.222692	0.187442	0.208940	0.232499	0.254223	0.266305	0.263273
11	0.205892	0.175529	0.192950	0.213719	0.232143	0.243055	0.241853
12	0.189092	0.163616	0.176960	0.194939	0.210063	0.219805	0.220433
13	0.177986	0.155932	0.166748	0.182747	0.195840	0.204871	0.206708
14	0.167756	0.148717	0.157178	0.171287	0.182490	0.190861	0.193838
15	0.157526	0.141502	0.147608	0.159827	0.169140	0.176851	0.180968
16	0.147296	0.134287	0.138038	0.148367	0.155790	0.162841	0.168098
17	0.137066	0.127072	0.128468	0.136907	0.142440	0.148831	0.155228
18	0.126836	0.119857	0.118898	0.125447	0.129090	0.134821	0.142358
19	0.116606	0.112642	0.109328	0.113987	0.115740	0.120811	0.129488
20	0.106376	0.105427	0.099758	0.102527	0.102390	0.106801	0.116618
21	0.096146	0.098212	0.090188	0.091067	0.089040	0.092791	0.103748
22	0.085916	0.090997	0.080618	0.079607	0.075690	0.078781	0.090878
23	0.075686	0.083782	0.071048	0.068147	0.062340	0.064771	0.078008
24	0.065456	0.076567	0.061478	0.056687	0.048990	0.050761	0.065138
25	0.032728	0.038284	0.030739	0.028344	0.024495	0.025380	0.032569

Appendix D4A - Continuance Table
30-Day Non-Retroactive Involuntary Unemployment Insurance

Duration in Months (d) (1)	Number Unempl. EOM (N*d*) (2)	Monthly Continuance Factor %'s MCF (3)	Number Returning To Work In A Month (R*d*) (4)	Payments Received by R*d* (5)	Benefits Received by R*d* (6)	Cum. Benefits Received Through Rd (7)	Cum. Benefits Received By Nd (8)	Cum. Benefits Received (9)	Cum. Average Duration of Unempl. > 30 Days (10)	Non - Retro Offset (11)	(12)	**All Ages** (13)
= 0	1,000								0			
>0, <= 1	794	79.37%								0	0.00	**0.00**
>1, <= 2	643	64.31%	151	0.5	76	76	643	719	0.72	1	0.72	**0.72**
>2, <= 3	516	51.62%	127	1.5	191	266	1,032	1,298	1.30	2	1.01	**1.30**
>3, <= 4	421	42.08%	95	2.5	238	504	1,263	1,767	1.77	3	1.53	**1.77**
>4, <= 5	357	35.69%	64	3.5	224	728	1,428	2,156	2.16	4	1.96	**2.16**
>5, <= 6	293	29.30%	64	4.5	288	1,016	1,465	2,481	2.48	5	2.32	**2.48**
>6, <= 7	273	27.31%	20	5.5	110	1,126	1,638	2,764	2.76	6	2.62	**2.76**
>7, <= 8	256	25.63%	17	6.5	111	1,236	1,792	3,028	3.03	7	2.90	**3.03**
>8, <= 9	239	23.95%	17	7.5	128	1,364	1,912	3,276	3.28	8	3.15	**3.28**
>9, <= 10	223	22.27%	16	8.5	136	1,500	2,007	3,507	3.51	9	3.39	**3.51**
>10, <= 11	206	20.59%	17	9.5	162	1,661	2,060	3,721	3.72	10	3.61	**3.72**
>11, <= 12	189	18.91%	17	10.5	179	1,840	2,079	3,919	3.92	11	3.82	**3.92**
>12, <= 13	178	17.80%	11	11.5	127	1,966	2,314	4,280	4.28	12	4.10	**4.28**
>13, <= 14	168	16.78%	10	12.5	125	2,091	2,352	4,443	4.44	13	4.36	**4.44**
>14, <= 15	158	15.75%	10	13.5	135	2,226	2,370	4,596	4.60	14	4.52	**4.60**
>15, <= 16	147	14.73%	11	14.5	160	2,386	2,352	4,738	4.74	15	4.67	**4.74**
>16, <= 17	137	13.71%	10	15.5	155	2,541	2,329	4,870	4.87	16	4.80	**4.87**
>17, <= 18	127	12.68%	10	16.5	165	2,706	2,286	4,992	4.99	17	4.93	**4.99**
>18, <= 19	117	11.66%	10	17.5	175	2,881	2,223	5,104	5.10	18	5.05	**5.10**
>19, <= 20	106	10.64%	11	18.5	204	3,084	2,120	5,204	5.20	19	5.15	**5.20**
>20, <= 21	96	9.61%	10	19.5	195	3,279	2,016	5,295	5.30	20	5.25	**5.30**
>21, <= 22	86	8.59%	10	20.5	205	3,484	1,892	5,376	5.38	21	5.34	**5.38**
>22, <= 23	76	7.57%	10	21.5	215	3,699	1,748	5,447	5.45	22	5.41	**5.45**
>23, <= 24	65	6.55%	11	22.5	248	3,947	1,560	5,507	5.51	23	5.48	**5.51**
>24, <= 25	33	3.27%	32	23.5	752	4,699	825	5,524	5.52	24	5.52	**5.52**

Appendix D4B

Continuance Table Calculation Methodology

Col (1): Durations In Months (d).

Col (2) Mo(d) = Col (3) Mo(d) / Col (2) Mo(0)

Col (3) Mo(d) = Monthly Continuance Factors from Appendix D3B.

Since benefit coverage was 30-day non-retroactive,
values in columns (4) - (13) = 0 for Mo(1)

Col (4) Mo(d) = Col (2) Mo(d-1) - Col (2) Mo(d)

Col (5) Mo(d) = Payments Received By Rd
Note: Recoveries within a month receive a half month's exposure.

Col (6) Mo(d) = Col (4) Mo(d) x Col (5) Mo(d)

Col (7) Mo(d) = SUM Col (6) [Mo(2) Through Mo(d)]

Col (8) Mo(d) = Col (2) Mo(d) x (d-1)

Col (9) Mo(d) = Col (7) Mo(d) + Col (8) Mo(d)

Col (10) Mo(d) = Col (9) Mo(d) / Col (2) Mo(0)

Col (11) Mo(d) = Col (1) Mo(d-1)

Col (12) Mo(d) = [Col (10) Mo(d-1) + Col (10) Mo(d)] / 2

Col (13) Mo(d) = Col (10) Mo(d)

Appendix D5
"30-Day Non-Retroactive Involuntary Unemployment Insurance"
Development of Proposed Claim Costs

Max. # Of Monthly Benefits	12
Monthly Benefit Payment	$100.00

(1) Age Range	(2) Number Of Insured	(3) Incidence Rate Per Month	(4) Number becoming unemployed > 30 days	(5) Maximum Number of Benefits	(6) Average Duration of Claims	(7) Total Incurred Benefit Per Month	(8) **Annual Clm Cost Per $100 Monthly Benefit Payment**
All Ages	100	0.598%	0.598	12	4.28	2.5594	**$ 30.71**
18 - 24	100	0.410%	0.410	12	3.73	1.5293	**$ 18.35**
25 - 34	100	0.658%	0.658	12	4.17	2.7439	**$ 32.93**
35 - 44	100	0.649%	0.649	12	4.52	2.9335	**$ 35.20**
45 - 54	100	0.610%	0.610	12	4.88	2.9768	**$ 35.72**
55 - 59	100	0.584%	0.584	12	5.02	2.9317	**$ 35.18**
60 - 64	100	0.613%	0.613	12	5.02	3.0773	**$ 36.92**
65 - 69	100	0.482%	0.482	12	4.82	2.3232	**$ 27.88**

Col (3): Incidence Rate Per Month (Appendix D2B)
Col (4): Col (2) x Col (3)
Col (5): Set in Product Specifications Section (12 Months)
Col (6): Appendix D4A: Column (13) for the Maximum Number of Benefits in Column (11).
Col (7): Col (4) x Col (6) / Col (2) x ($100 Monthly Benefit Payment)
Col (8): Col (7) x 12 Annual Claim Cost Per $100 Monthly Benefit Payment

Appendix E

Development of Leave of Absence Claim Costs

Appendix	Description
E1	The results (in table form) derived from 1995 and 2000 studies published by the Department of Labor on the utilization and characteristics of Family Leave benefits actually taken by employees. The more recent 2000 study was used. The two main tables were (1) Table A-2 – 2.2: Length of Longest Leave: 1995 and 2000 Surveys (2) Table A-2 – 2.4: Demographic Characteristics of Leave-Takers Versus Other Employees: 2000 Survey.
E2	The 2000 Civilian Labor Force Employed by Reformatted Age Group from the US Department of Labor statistics.
E3	The development of the Leave of Absence Claims Costs by Age Group Per $100 Monthly Benefit. The data and calculation methodology in the claim cost development have been documented in the Appendix. In general:

1. Percent of Leave-Takers were inserted from the Percent of Leave-Takers column in Table A-2 – 2.4: Demographic Characteristics of Leave-Takers Versus Other Employees – 2000 Survey.

2. The Population Totals over an 18-month period (23,830,305) came from the same table as in "1" above. This amount was multiplied by (12/18) to convert it to a "12-month period" (15,886,870).

3. The 12-month population total in "2" above was multiplied by the "percent of leave-takers" for each age group to derive the "number of leave-takers by age group".

4. The "percent qualifying for 1st monthly benefit" came from the "greater than 30 days length of longest leave" in the 2000 Survey column in the Table A-2 – 2.2: Length of Longest Leave: 1995 and 2000 Surveys (7.9%+9.2%+9.9%=27.0%).

5. The "percent qualifying for 2nd monthly benefit" came from the same source as in "4" above except for "greater than 60 days length of longest leave" (9.9%).

6. The number qualifying for 1st monthly benefit = (3) x (4) as described above.

7. Similarly, the number qualifying for 2nd monthly benefit = (3) x (5) as described above.

8. Appendix E2 contains the "2000 civilian labor force employed by age group.

9. 30-Day Incidence Rate = (6) / (8) / 1,000

10. 60-Day Incidence Rate = (7) / (8) / 1,000

11. Number of Monthly Benefit Payments = (9) + (10)
Note: Maximum benefit payments of 2 months were assumed.

12. Annual Claim Cost Per $100 MB = (11) x (100)

13. The civilian population adjustment factors by age group were derived in Appendix F1 (IUI column) in the Civilian Population Adjustments Appendix below.

14. The adjustment factors in "13" above were recalculated based on age groupings which were consistent with the annual claim costs in "12" above.

15. Annual Claim Cost Per $100 MB in "12" above was based on 100% eligibility.

16. Annual Claim Cost Per $100 MB in "15" above was multiplied by the adjustment factors in "14" above to derive the Annual Claim Cost Per $100 MB based on "civilian population".

17. The average of the Annual Claim Costs per $100 MB in "15" and "16".

Table A2-2.1. Number of Leaves Taken: 1995 and 2000 Surveys

Number	Percent of Leave-Takers	
	1995 Survey	2000 Survey
1	73.8%	75.2%
2	16.3%	14.5%
3 or more	10.0%	10.2%

Note: Column percents may not total to 100% due to rounding.
Source: 1995 and 2000 Survey of Employees.

Table A2-2.2. Length of Longest Leave: 1995 and 2000 Surveys

Length of Longest Leave	Percent of Leave-Takers	
	1995 Survey	2000 Survey
1- 3 days	10.0%	12.3%
4 – 5 days	24.4%	21.5%
6 – 10 days	20.2%	20.3%
11 – 20 days	12.7%	12.1%
21 – 30 days	8.0%	6.8%
31 – 40 days	7.4%	7.9%
41 – 60 days	8.0%	9.2%
More than 60 days	9.3%	9.9%
Number of Leave-Takers	**20,359,640**	**23,830,305**

Note: Column percents may not total to 100% due to rounding.
Source: 1995 and 2000 Survey of Employees.

Table A2-2.4. Demographic Characteristics of Leave-Takers Versus Other Employees: 2000 Survey

	Percent of Leave-Takers	Percent of Other Employees	Percent of All Employees
Gender**			
Male	41.9%	53.2%	51.3%
Female	58.1%	46.8%	48.7%
Age**			
18 – 24	10.0%	15.8%	14.8%
25 – 34	27.8%	21.8%	22.8%
35 – 49	39.7%	39.5%	39.6%
50 – 64	20.4%	19.7%	19.8%
65 or over	2.1%	3.2%	3.0%
Race/Ethnicity			
White non-Hispanic	76.2%	78.2%	77.9%
Black non-Hispanic	10.6%	9.4%	9.6%
Hispanic	8.2%	7.0%	7.2%
Asian	2.2%	2.9%	2.8%
All others	2.8%	2.5%	2.6%
Marital Status**			
Married/Living with partner	75.0%	65.7%	67.2%
Separated/Divorced/Widowed	12.7%	10.1%	10.5%
Never been married	12.3%	24.2%	22.3%
Children Under 18 in Household**			
None	40.4%	63.3%	59.5%
One or more	59.6%	36.7%	40.5%
Education			
Less than high school	5.9%	5.1%	5.2%
High school graduate	27.9%	30.0%	29.6%
Some college	32.8%	27.7%	28.6%
College graduate	22.2%	26.2%	25.5%
Graduate school	11.2%	11.0%	11.1%
Annual Family Income			
Less than $20,000	14.9%	16.4%	16.2%
$20,000 to less than $30,000	12.4%	14.0%	13.7%
$30,000 to less than $50,000	25.5%	24.8%	25.0%
$50,000 to less than $75,000	25.7%	22.5%	23.1%
$75,000 to less than $100,000	11.3%	12.2%	12.1%
$100,000 or more	10.2%	10.0%	10.0%
Compensation Type			
Salaried	36.4%	37.4%	37.3%
Hourly	54.5%	50.8%	51.4%
Other	9.1%	11.8%	11.3%
Population Totals	**23,830,305**	**120,188,991**	**144,019,296**

** Difference between leave-takers and other employees is significant at $p<.05$.
Note: Column percents may not total to 100% due to rounding.
Source: 2000 Survey of Employees.

Appendix E2: Civilian Labor Force Employed 2000

Age Group	Number Employed
18-24	17,660
25-34	31,548
35-49	52,919
50-64	27,827
65+	4,179

Source: http://www.bls.gov/data/#employment
<Labor Force Statistics>
<One Screen Data Search>

Appendix E3
Leave of Absence Claim Costs By Age Group - Per $100 Monthly Benefit

Age Group	Percent of Leave-Takers * (1)	Number Of Leave-Takers ** (3):(1)x(2)	Percent Qualifiying For 1st Monthly Benefit *** (4)	Percent Qualifiying For 2nd Monthly Benefit **** (5)	Number Qualifiying For 1st Monthly Benefit (6):(3)x(4)	Number Qualifiying For 2nd Monthly Benefit (7):(3)x(5)	Civilian Labor Employed "(1,000's) ***** (8)	30-Day Incidence Rate (9):(6)/(8)/1000	60-Day Incidence Rate (10):(7)/(8)/1000	Number of Monthly Benefit Payments ****** (11): (9)+(10)	Annual Claim Cost Per $100 MB (12):(11)x100
18-24	10.0%	1,588,687	27.00%	9.90%	428,945	157,280	17,660	0.0243	0.0089	0.0332	$ 3.32
25-34	27.8%	4,416,550	27.00%	9.90%	1,192,468	437,238	31,548	0.0378	0.0139	0.0517	$ 5.17
35-49	39.7%	6,307,087	27.00%	9.90%	1,702,914	624,402	52,919	0.0322	0.0118	0.0440	$ 4.40
50-64	20.4%	3,240,921	27.00%	9.90%	875,049	320,851	27,827	0.0314	0.0115	0.0430	$ 4.30
65+	2.1%	333,624	27.00%	9.90%	90,079	33,029	4,179	0.0216	0.0079	0.0295	$ 2.95
Total	100.0%	15,886,870									

Appendix E1 contains Table A-2 - 2.2 and Table A-2 - 2.4 referenced below.

* Table A-2 - 2.4: Demographic Characteristics of Leave-Takers Versus Other Employees: 2000 Survey
Percent of Leave-Takers - By Age

** Table A-2 - 2.4: Demographic Characteristics of Leave-Takers Versus Other Employees: 2000 Survey
Percent of Leave-Takers - Population Totals Over An 18 Month Period 23,830,305
Percent of Leave-Takers - Population Totals Over An 12 Month Period 15,886,870 (2)

*** Table A-2 - 2.2: Length of Longest Leave
Percent of Leave-Takers - 2000 Survey
Percent Greater Than 30 Days

**** Table A-2 - 2.2: Length of Longest Leave
Percent of Leave-Takers - 2000 Survey
Percent Greater Than 60 Days

***** Appendix E2: 2000 Civilian Labor Force Employed

****** Maximum of 2 Monthly Benefit Payments Assumed

Civ Pop Adjustment Factors (13)
See Civilian Population Adjustments
Appendix 1 (IUI)

Under 25 years................	25.5%
25 to 34 years................	58.1%
35 to 44 years................	56.1%
45 to 54 years................	53.3%
55 to 59 years................	39.0%
60 to 64 years................	28.6%
65 to 69 years................	11.9%

LOA Civ Pop Adjustment Factors	(14):(13) Adjusted	100% Elig Ann CC / 100 MB (15):See (12)	Civ Pop Ann CC / 100 MB (16):(14)x(15)	Avg Ann CC / 100 MB (17):Avg (15)+(16)
18-24	25.5%	$ 3.32	$ 0.85	$ 2.08
25-34	58.1%	$ 5.17	$ 3.00	$ 4.08
35-49	55.2%	$ 4.40	$ 2.43	$ 3.41
50-64	37.7%	$ 4.30	$ 1.62	$ 2.96
65+	11.9%	$ 2.95	$ 0.35	$ 1.65

Appendix F

Development of Civilian Population Adjustments For Disability Claim Costs & Involuntary Unemployment Claim Costs & Leave of Absence Claim Costs

Appendix	Description
F1	2003 – 2009 Average Civilian Population Adjustment Factors
F2A	30-Day Non-Retroactive Involuntary Unemployment Insurance Annual Involuntary Unemployment Cost per $100 Monthly Benefit Conversion of Age Groups From Decennial To Quinquennial
F2B	30-Day Non-Retroactive Involuntary Unemployment Insurance Adjusted Annual Involuntary Unemployment Cost per $100 Monthly Benefit. Based on Civilian Non-Institutional Population.
F2C	30-Day Non-Retroactive Involuntary Unemployment Insurance Annual Involuntary Unemployment Cost per $1,000 Outstanding Balance Based on Civilian Non-Institutional Population
F3A	30-Day Non-Retroactive Disability Insurance Adjusted Annual Morbidity Cost per $100 Monthly Benefit Based on Civilian Non-Institutional Population
F3B	30-Day Non-Retroactive Disability Insurance Adjusted Annual Morbidity Cost per $1,000 Outstanding Balance Based on Civilian Non-Institutional Population

Sources of Data

United States Department of Labor (DOL)
Population Statistics – Civilian Labor Force Employed
Population Statistics – Non-institutional Unemployed
State Unemployment Insurance Program Data
IUI Appendix D5 – Development of Proposed Claim Costs
DI Appendix B5 – Development of Proposed Claim Costs

Development of the 2003-2009 Appendix F1 Results – By Age Group

Appendix F1 contains the average age specific data for calendar years 2003-2009 for the following:

Civilian Non-institutional Population
Civilian Labor Force
Civilian Labor Force Employed
Wage & Salary Worker
Covered Employed
Full-Time Workers – 35+ Hrs/Wk

Description of the sources can be found in the Appendix.

Development Of Civilian Population Adjustment Factors for IUI and DI

These average results noted above were used to calculate “civilian population adjustment factors for DI (Col 8) and IUI (Col 10).

For DI, it was assumed that “Full-Time Workers” were 100% eligible. Thus, the civilian population adjustment factors by age range were derived as “Full-Time Workers” / “Civilian Non-institutional Population” and were shown by age range in Col 8.

For IUI, it was assumed that “Full-Time Workers” excluding “Self-Employed Workers” were 100% eligible. Thus, the civilian population adjustment factors by age range were derived as the “Full-Time Workers” excluding “Self-Employed Workers “Full-Time Workers” / “Civilian Non-institutional Population” and were shown by age range in Col 10.

Conversion of Annual Involuntary Unemployment Cost per $100 Month Benefit Age Groups From Decennial to Quinquennial

Appendix F2A contains the Annual Involuntary Unemployment Costs per $100 Monthly Benefit by age group and the conversions from decennial to quinquennial.

In Appendix F2B, the IUI adjustment factors (from column 10 of Appendix F1) were applied to the Annual Involuntary Unemployment Costs per $100 Monthly Benefit to derive "Civilian Non-institutional Adjusted Involuntary Unemployment Costs per $100 Monthly Benefit.

The averages of the two sets of "costs per $100 monthly benefit" were also derived.

The three sets of "costs per $1,000 of outstanding balance (based on 3% repayment terms) were derived in Appendix F2C.

Annual Disability Morbidity Costs per $100 Month Benefit

Appendix F3A contains the Annual Disability Morbidity Costs per $100 Monthly Benefit by age group.

The DI adjustment factors (from column 8 of Appendix F1) were applied to the Annual Disability Morbidity Costs per $100 Monthly Benefit to derive "Civilian Non-institutional Adjusted Disability Morbidity Costs per $100 Monthly Benefit.

The averages of the two sets of "costs per $100 monthly benefit" were also derived.

The three sets of "costs per $1,000 of outstanding balance (based on 3% repayment terms) were derived in Appendix F3B.

Appendix F1 - 2003-2009 Average Civilian Population Adjustment Factors

	Civilian noninsti-tutional population * (1)	Civilian Labor Force * (2)	Civilian Labor Force Employed * (3)	Wage & Salary Worker ** (4)	Self-employed workers (5): (3)-(4)	Covered Employed *** (6)	Full-Time Workers 35+ Hrs/Wk **** (DI) (7)	As % Of Civilian noninsti-tutional population (DI) (8): (7)/(1)	Full-Time Workers 35+ Hrs/Wk Excl Self - employed workers (IUI) (9): (7)-(5)	As % Of Civilian noninsti-tutional population (IUI) (10): (9)/(1)
Total, 16 years and over	203,326	148,358	139,630	129,671	9,959	129,775	100,917	49.6%	90,959	44.7%
Under 25 years	36,913	22,094	19,353	18,943	410	17,976	9,824	26.6%	9,414	25.5%
25 to 34 years	39,468	32,746	30,789	29,243	1,545	28,615	24,465	62.0%	22,920	58.1%
35 to 44 years	42,536	35,651	33,991	31,496	2,495	31,579	26,360	62.0%	23,865	56.1%
45 to 54 years	42,663	34,926	33,478	30,612	2,866	31,120	25,605	60.0%	22,740	53.3%
55 to 59 years	17,522	12,623	12,117	10,788	1,329	11,268	8,165	46.6%	6,836	39.0%
60 to 64 years	13,747	7,257	6,969	6,207	762	6,487	4,695	34.2%	3,932	28.6%
65 to 69 years	10,477	3,060	2,933	2,382	551	2,730	1,802	17.2%	1,251	11.9%

* Source: ftp://ftp.bls.gov/pub/special.requests/lf/aat3.txt
3. Employment status of the civilian noninstitutional population by age, sex and race

** Source: ftp://ftp.bls.gov/pub/special.requests/lf/aat15.txt
15. Employed persons in agriculture and related and in nonagriculture industries by age, sex, and class of worker

*** Source: See IUI Appendix D2A - Covered Employment (Adjusted By Age Group)
Differences were attributed to the order of calculation.

**** Source: ftp://ftp.bls.gov/pub/special.requests/lf/aat8.txt
8. Employed and unemployed full- and part-time workers by age, sex, race, and Hispanic or Latino ethnicity

Appendix F2A

"30-Day Non-Retroactive Involuntary Unemployment Insurance"
Annual Involuntary Unemployment Cost per $100 Monthly Benefit
Conversion of Age Groups From Decennial To Quinquennial

Age Group	[All Eligible] Annual Involuntary Unemployment Cost per $100 Monthly Benefit *
18 - 24	18.35
25 - 34	32.93
35 - 44	35.20
45 - 54	35.72
55 - 59	35.18
60 - 64	36.92
65 - 69	27.88
70 - 74	
75+	

Age Group	[All Eligible] Annual Involuntary Unemployment Cost per $100 Monthly Benefit
18 - 24	18.35
25 - 29	33.61
30 - 34	32.25
35 - 39	34.59
40 - 44	35.81
45 - 49	37.10
50 - 54	34.34
55 - 59	35.18
60 - 64	36.92
65 - 69	27.88
70 - 74	
75+	

* Source: See IUI Appendix D5 - Development of Proposed Claim Costs

Appendix F2B

"30-Day Non-Retroactive Involuntary Unemployment Insurance"
Adjusted Annual Involuntary Unemployment Cost per $100 Monthly Benefit
Based On Civilian Non-Institutional Population

Age Group	[All Eligible] Annual Involuntary Unemployment Cost per $100 Monthly Benefit *	Adjustment Factor **	[Civ Noninstitutional Population] Adjusted Annual Involuntary Unemployment Cost per $100 Monthly Benefit	[Average Of All Eligible and Civ Noninstitutional Population] Adjusted Annual Involuntary Unemployment Cost per $100 Monthly Benefit
18 - 24	18.35	25.5%	4.68	11.51
25 - 29	33.61	58.1%	19.52	26.56
30 - 34	32.25	58.1%	18.73	25.49
35 - 39	34.59	56.1%	19.41	27.00
40 - 44	35.81	56.1%	20.09	27.95
45 - 49	37.10	53.3%	19.77	28.44
50 - 54	34.34	53.3%	18.30	26.32
55 - 59	35.18	39.0%	13.73	24.45
60 - 64	36.92	28.6%	10.56	23.74
65 - 69	27.88	11.9%	3.33	15.60
70 - 74				
75+				

* Source: Appendix F2A

** Source: Appendix F1 - Col 10

Appendix F2C

"30-Day Non-Retroactive Involuntary Unemployment Insurance"
Adjusted Annual Involuntary Unemployment Cost per $1,000 Outstanding Balance
Based On Civilian Non-Institutional Population

Age Group	[All Eligible] Annual Involuntary Unemployment Cost per $1,000 Outstanding Bal *	Adjustment Factor **	[Civ Noninstitutional Population] Adjusted Annual Involuntary Unemployment Cost per $1,000 Outstanding Bal	[Average Of All Eligible and Civ Noninstitutional Population] Adjusted Annual Involuntary Unemployment Cost per $1,000 Outstanding Bal
18 - 24	5.51	25.5%	1.40	3.45
25 - 29	10.08	58.1%	5.86	7.97
30 - 34	9.68	58.1%	5.62	7.65
35 - 39	10.38	56.1%	5.82	8.10
40 - 44	10.74	56.1%	6.03	8.39
45 - 49	11.13	53.3%	5.93	8.53
50 - 54	10.30	53.3%	5.49	7.90
55 - 59	10.55	39.0%	4.12	7.34
60 - 64	11.08	28.6%	3.17	7.12
65 - 69	8.36	11.9%	1.00	4.68
70 - 74				
75+				

* Source: Appendix F2A Adjusted
Based On 3% Repayment Terms

** Source: Appendix F1 - Col 10

Appendix F3A

"30-Day Non-Retroactive Disability Insurance"
Adjusted Annual Disability Morbidity Cost per $100 Monthly Benefit
Based On Civilian Non-Institutional Population

Age Group	[All Eligible] Annual Morbidity Cost per $100 Monthly Benefit *	Adjustment Factor **	[Civ Noninstitutional Population] Adjusted Annual Morbidity Cost per $100 Monthly Benefit	[Average Of All Eligible and Civ Noninstitutional Population] Adjusted Annual Involuntary Unemployment Cost per $100 Monthly Benefit
18 - 24	5.98	26.6%	1.59	3.79
25 - 29	6.36	62.0%	3.94	5.15
30 - 34	7.23	62.0%	4.48	5.86
35 - 39	8.44	62.0%	5.23	6.84
40 - 44	9.89	62.0%	6.13	8.01
45 - 49	11.65	60.0%	6.99	9.32
50 - 54	14.00	60.0%	8.40	11.20
55 - 59	17.56	46.6%	8.18	12.87
60 - 64	23.43	34.2%	8.00	15.72
65 - 69	26.44	17.2%	4.55	15.49
70 - 74				
75+				

* Source: See DI Appendix B5 - Development of Proposed Claim Costs

** Source: Appendix F1 - Col 8

Appendix F3B

"30-Day Non-Retroactive Disability Insurance"
Adjusted Annual Disability Morbidity Cost per $1,000 Outstanding Balance
Based On Civilian Non-Institutional Population

Age Group	[All Eligible] Annual Morbidity Cost per $1,000 Outstanding Bal *	Adjustment Factor **	[Civ Noninstitutional Population] Adjusted Annual Morbidity Cost per $1,000 Outstanding Bal	[Average Of All Eligible and Civ Noninstitutional Population] Adjusted Annual Involuntary Unemployment Cost per $1,000 Outstanding Bal
18 - 24	1.79	26.6%	0.48	1.14
25 - 29	1.91	62.0%	1.18	1.55
30 - 34	2.17	62.0%	1.34	1.76
35 - 39	2.53	62.0%	1.57	2.05
40 - 44	2.97	62.0%	1.84	2.40
45 - 49	3.50	60.0%	2.10	2.80
50 - 54	4.20	60.0%	2.52	3.36
55 - 59	5.27	46.6%	2.45	3.86
60 - 64	7.03	34.2%	2.40	4.71
65 - 69	7.93	17.2%	1.36	4.65
70 - 74				
75+				

* Source: Appendix F3A Adjusted
Based On 3% Repayment Terms

** Source: Appendix F1 - Col 8

[BANK NAME]
[NAME OF PROGRAM] PROGRAM
(THE "PROGRAM")
DEBT CANCELLATION AMENDMENT TO [BANK NAME] CARDHOLDER AGREEMENT (the "Amendment")

FOR INFORMATIONAL PURPOSES ONLY

GENERAL TERMS AND CONDITIONS

Please note that required disclosures are bolded throughout this Amendment. The [Bank Name] Cardholder Agreement ("CA") shall be subject to the following provisions, notwithstanding any provisions to the contrary contained in the CA agreed to by Primary Cardholder. In this Amendment "You" or "Yours" means either, Primary Cardholder, or Primary Cardholder and Joint Cardholder, if any, collectively where the context requires. "We", "Us" or "Our" means [Bank Name]. A Joint Cardholder is automatically enrolled in the Program when the Primary Cardholder enrolls in the Program, if they both satisfy the eligibility requirements for the Program as set forth below. A complete explanation of the eligibility requirements, conditions and exclusions are listed in the Program Protection Terms and Conditions below.

The terms of protection for this Program, including the limitation on and exclusions from protection, are set forth in detail in this Amendment. You should review these terms carefully. Your purchase of the Program is optional. Your decision to purchase or not to purchase will not affect Your application for the [Bank Name] credit card or Your eligibility for credit. Debt Cancellation provided by this Program and set forth in this Amendment are contractual obligations of [Bank Name] and is not insurance. This Program is not insured by any agency of the United States. [Bank Name] may not condition the approval of credit card application or change the terms or conditions based on Your decision to purchase or not to purchase [Name of Program].

"Debt Cancellation" refers to Our forgiveness or cancellation of the Eligible Debt Amount (as defined below in Sections 1.4, 2.4, 3.4, 4.3, and 5.4) portion of Your Outstanding Account Balance due to the occurrence of a Debt Cancellation Event, as defined below.

"Debt Cancellation Event" refers to an event that initiates Debt Cancellation under the Program as provided in this Amendment.

"Debt Cancellation Period" refers to the period of time during which You are eligible for Debt Cancellation in accordance with the terms and conditions of a Debt Cancellation Event.

"Effective Date" means the date Your enrollment is approved by Us and becomes effective. The Effective Date is shown on Your enrollment confirmation letter.

"Outstanding Account Balance" refers to the sum of all purchases, cash advances, fees, premiums, finance charges or other charges (excluding late fees & over-the-credit limit fees) at the time the amount of Debt Cancellation is determined.

"Program Administrator" refers to the company retained by Us to provide Program services to You. The Program Administrator's toll-free telephone number and address is provided in the Program Administrator section below.

"Program Limit" refers to the maximum protection amount.

A Joint Cardholder is only eligible for Loss of Life protection under this Amendment if the Primary Cardholder elects protection hereunder. The terms of protection, including the limitations on and exclusions from protection, are set forth in detail in this Amendment. You should review these terms carefully.

Any changes in Your employment status—including, but not limited to—if You that become self-employed or if You retire—may result in Your being ineligible for Involuntary Unemployment protection, Leave of Absence protection, and/or Disability protection under the Program. If You become ineligible for any of these protections as a result of a change in Your employment status, You should consider whether it is in Your best interest to remain in the Program.

FOR INFORMATIONAL PURPOSES ONLY

This Amendment is issued in consideration of Your payment of the monthly Program fee. The monthly Program fee is based on a rate of $.XX per $100 of Your monthly Outstanding Account Balance up to a balance of $10,000. **We may change the rate in the future, but will notify You before any rate increase goes into effect and You will have an opportunity to cancel prior to the implementation of any rate increase.** The fee is included in Your account principal amount, and finance charges [will / will not] be assessed on Your Program fee. Your Amendment will be automatically cancelled on the date You are more than 90 (ninety) days past due in making the minimum monthly payment due as shown on the statement.

The monthly account balance in Your statement is payable in accordance with the terms of the CA, unless a Debt Cancellation Event has occurred and the related request is approved.

The cancellation of the Eligible Debt Amount **may be taxable** as income to the Primary Cardholder's/Joint Cardholder's estate/survivors or the Primary Cardholder or Joint Cardholder. This Program is NOT insurance. It is recommended that You contact an accountant or other qualified financial tax advisor concerning any specific tax impact of Debt Cancellation under the Program.

You have the right to terminate this Amendment by giving either written notice to the Program Administrator at the address provided in the Program Administrator section below, or providing such notice to the Program Administrator by telephone at the toll-free number provided in the Program Administrator section below. If You provide notice within 30 (thirty) days from the Effective Date, You are eligible for a full refund of the monthly fee. Thereafter, there will be no refund of Program fees following termination, except as provided in Section 1.1 and 2.1. Other Program fees paid prior to termination are not refundable. If You or We terminate this Amendment, any refund may, at Our option, be applied toward the Outstanding Account Balance due under the CA.

PROGRAM PROTECTION TERMS AND CONDITIONS

PROTECTION FOR THE PRIMARY CARDHOLDER ONLY: If elected, the [Name of Program] Program provides the Primary Cardholder, the person whose name appears first on the statement, with:

1. **Involuntary Unemployment Protection**

1.1 **Debt Cancellation Due to Involuntary Unemployment.** Debt Cancellation due to Your Involuntary Unemployment is only available to the Primary Cardholder. To qualify for this protection, You must be employed full-time (but not self-employed or an independent contractor) and working at least 30 (thirty) hours per week, in a non-seasonal occupation on the date of unemployment. "Involuntary Unemployment" occurs when You experience an entire loss of employment for at least 30 (thirty) consecutive days due to one of the following: (a) an individual or mass layoff; (b) a general strike; (c) a unionized labor dispute; (d) a lockout; or (e) an involuntary termination of Your employment not due to willful or criminal misconduct. If Involuntary Unemployment occurs within 60 (sixty) days after the Effective Date, all fees paid by You for the Program will be refunded or applied to Your account, and this Amendment will be deemed void. You must continue to make Your monthly payments in accordance with the CA until the Program Administrator receives and approves Your Debt Cancellation Request Form. To obtain a Debt Cancellation Request Form, You may contact Us at the address or telephone number listed in the Program Administrator section below. If the Program Administrator approves Your request for Debt Cancellation, We will cancel Your obligation to pay the Eligible Debt Amount.

1.2 **Notice of Involuntary Unemployment Requirements.** To obtain Debt Cancellation for Involuntary Unemployment, the Program Administrator must approve Your request for Debt Cancellation after Your submission of a Debt Cancellation Request Form at the address provided in the Program Administrator section below. You must provide the Debt Cancellation Request Form, and any additional information reasonably requested by the Program Administrator, including a letter from Your employer, following the 30 (thirty) day non-retroactive waiting period but prior to 120 (one hundred twenty) days following the first day of Your Involuntary Unemployment (the "Debt Cancellation Period"). After the initial Debt Cancellation Request Form has been furnished and the Program Administrator has approved Your request for Debt Cancellation, You must thereafter provide Debt Cancellation Request Forms to the Program Administrator throughout the Debt Cancellation Period on a monthly basis, or as otherwise requested by the Program Administrator. We have the right to request that You provide the Debt Cancellation Request Form as often as reasonably necessary for Us to evaluate whether Your Involuntary Unemployment is continuing. Failure to furnish such proof with Your Debt Cancellation Request Form shall not invalidate or reduce the amount of cancelled debt, provided that You furnish such proof as soon as reasonably possible and in no event later than 1 (one) year after the Debt Cancellation Period.

1.3 Exclusions. Notwithstanding the foregoing, You will not be eligible for Debt Cancellation if Your Involuntary Unemployment is caused by or results from any of the following: (a) Your voluntary forfeiture of employment, salary, wages or other employment income; (b) Your resignation; (c) Your retirement; (d) termination of employment as the result of willful or criminal misconduct; (e) scheduled termination of Your employment pursuant to an employment contract; (f) termination of seasonal employment; (g) a Disability, as defined in this Amendment, whether caused by illness, accident or pregnancy; (h) Your imprisonment; or (i) a reduction in number of hours worked that does not result in total elimination of employment income. You will not be eligible for Involuntary Unemployment Debt Cancellation if (aa) You had notice, either orally or in writing, of pending unemployment within 90 (ninety) days prior to the Effective Date; or (bb) Your Involuntary Unemployment commenced prior to the period beginning 60 (sixty) days after the Effective Date. You will not be eligible for Debt Cancellation due to Involuntary Unemployment if You are receiving or are eligible to receive disability benefits hereunder from some other source.

1.4 **Amount of Debt Cancellation.** The amount of Debt Cancellation for Involuntary Unemployment shall equal the minimum monthly payment due each month beginning with the minimum monthly payment first due after the 30 (thirty) day non-retroactive waiting period following the date Your Involuntary Unemployment began and continuing for as long as You remain unemployed (the "Eligible Debt Amount") and not to exceed the lesser of: (a) 12 (twelve) minimum monthly payments or (b) $10,000 (ten thousand dollars), the Program Limit. Any unpaid late fees and any additions to the account debt after the date of Involuntary Unemployment are excluded from the calculation of the Eligible Debt Amount due to Your Involuntary Unemployment, and You will remain obligated to pay such amounts. If You experience an Involuntary Unemployment within 90 (ninety) days following termination of a Debt Cancellation Period, the non-retroactive waiting period of 30 (thirty) days, does not apply and the Involuntary Unemployment will be considered a continuation of the preceding Involuntary Unemployment for purposes of calculating the maximum period of protection. If You experience an Involuntary Unemployment more than 90 (ninety) days following termination of a Debt Cancellation Period, the Involuntary Unemployment will be considered a new Debt Cancellation Event and the 30 (thirty) day non-retroactive waiting period will be applicable.

2. **Leave of Absence Protection**

2.1 **Debt Cancellation Due to Leave of Absence.** Debt Cancellation due to Your Leave of Absence is only available to the Primary Cardholder. The following definitions apply: Leave of Absence means Your employer-approved absence from full-time employment without pay for at least 30 (thirty) consecutive days due to one of the following: (a) the birth of Your child; (b) adoption of Your child; (c) provision of care due to accident or sickness of a family member; or (d) recall of Primary Cardholder to active military status. To qualify for Debt Cancellation under this Leave of Absence provision, You must obtain a letter from Your employer stating that You have been granted an unpaid Leave of Absence from work stating the reason for the Leave of Absence. If Leave of Absence occurs within 60 (sixty) days after the Effective Date, all fees paid by You for the Program will be refunded or applied to Your account, and this Amendment will be deemed void. You must continue to make Your monthly payments as scheduled in accordance with the CA until the Program Administrator receives and approves Your Debt Cancellation Request Form. To obtain a Debt Cancellation Request Form, You may contact Us at the address or telephone number listed in the Program Administrator section below. If the Program Administrator approves Your request, We will cancel Your obligation to pay the Eligible Debt Amount.

2.2 **Notice of Leave of Absence Requirements.** To obtain Debt Cancellation for Leave of Absence, the Program Administrator must approve Your request for Debt Cancellation after Your submission of a Debt Cancellation Request Form at the address provided in the Program Administrator section below. You must provide the Debt Cancellation Request Form and any additional information reasonably requested by the Program Administrator following the 30 (thirty) day non-retroactive waiting period but prior to 120 (one hundred twenty) days following the first day of Your Leave of Absence (the "Debt Cancellation Period"). The Debt Cancellation Request Form must include a letter from Your employer stating that You have been granted an unpaid Leave of Absence from work stating the reason for the Leave of Absence. After the initial Debt Cancellation Request Form has been furnished and the Program Administrator has approved Your request for Debt Cancellation, You

must thereafter provide Debt Cancellation Request Forms to the Program Administrator throughout the Debt Cancellation Period on a monthly basis, or as otherwise requested by the Program Administrator. We have the right to request that You provide the Debt Cancellation Request Form as often as reasonably necessary for Us to evaluate whether Your Leave of Absence is continuing. Failure to furnish such proof with Your Debt Cancellation Request Form shall not invalidate or reduce the amount of cancelled debt, provided that You furnish such proof as soon as reasonably possible and in no event later than 1 (one) year after the Debt Cancellation Period.

2.3 <u>Exclusions</u>. Notwithstanding the foregoing, You will not be eligible for Debt Cancellation based on Leave of Absence if (a) Your employer denies Your request for Leave of Absence; or (b) if You fail to provide a written letter from Your employer; (c) if You are self-employed or an independent contractor; or (d) Your Leave of Absence commenced prior to the period beginning 60 (sixty) days after the Effective Date.

2.4 **<u>Amount of Debt Cancellation</u>.** The amount of Debt Cancellation for Leave of Absence shall equal the minimum monthly payment due each month beginning with the minimum monthly payment first due after the 30 (thirty) day non-retroactive waiting period following the date Your Leave of Absence began and continuing for as long as You remain on leave (the "Eligible Debt Amount") and not to exceed the lesser of: (a) 12 (twelve) minimum monthly payments or (b) $10,000 (ten thousand dollars), the Program Limit. Any unpaid late fees and any additions to the account debt after the date that Leave of Absence began are excluded from the calculation of the Eligible Debt Amount due to Your Leave of Absence, and You will remain obligated to pay such amounts. If You experience a Leave of Absence within 90 (ninety) days following termination of a Debt Cancellation Period, the non-retroactive waiting period of 30 (thirty) days, does not apply and the Leave of Absence will be considered a continuation of the preceding Leave of Absence for purposes of calculating the maximum period of protection. If You experience a Leave of Absence more than 90 (ninety) days following termination of a Debt Cancellation Period, the Leave of Absence will be considered a new Debt Cancellation Event and the 30 (thirty) day non-retroactive waiting period will be applicable.

3. **Disability Protection**

3.1 **<u>Debt Cancellation Due to Disability</u>.** Debt Cancellation due to Your Total Disability is only available to the Primary Cardholder. The following definitions apply: A "Sickness" is an illness or disease that first manifests itself after the Effective Date and that requires the continuous care of a Physician. An "Injury" is an accidental bodily injury occurring after the Effective Date that requires the continuous care of a Physician. "Physician" means a doctor of medicine or osteopathy, other than Yourself, licensed in one or more states of the United States, the District of Columbia, Guam or Puerto Rico. A "Disability" is when, due to Sickness or Injury, You are unable to perform the principal duties of Your occupation, as such existed at the time the Sickness or Injury occurred. A "Total Disability" occurs when You suffer a Disability lasting at least 30 (thirty) continuous days, and are under the continuous treatment of a Physician who verifies Your Disability in writing. When You suffer a Total Disability, You must continue to make Your monthly payments in accordance with the CA until the Program Administrator receives and approves Your Debt Cancellation Request Form. To obtain a Debt Cancellation Request Form, You may contact Us at the address or telephone number listed in the Program Administrator section below. If the Program Administrator approves Your request, We will cancel the obligation to pay the Eligible Debt Amount.

3.2 **<u>Notice of Disability Requirements</u>.** To obtain Debt Cancellation for Total Disability, the Program Administrator must approve Your request for Debt Cancellation after Your submission of a Debt Cancellation Request Form at the address provided in the Program Administrator section below. You must provide the Debt Cancellation Request Form, and any additional information reasonably requested by the Program Administrator, including medical records, more than 30 (thirty) days but less than 120 (one hundred twenty) days after the Disability Date (the "Debt Cancellation Period"). After the initial Debt Cancellation Request Form has been furnished and the Program Administrator has approved Your request for Debt Cancellation, You must thereafter provide Debt Cancellation Request Forms to the Program Administrator throughout the cancellation period on a monthly basis, or as otherwise requested by the Program Administrator. We have the right to request that You provide the Debt Cancellation Request Form as often as reasonably necessary for Us to evaluate whether Your Total Disability is continuing. Failure to furnish such proof with Your Debt Cancellation Request Form shall not invalidate or reduce the amount of cancelled debt, provided that You furnish such proof as soon as reasonably possible and in no event later than 1 (one) year after the Debt Cancellation Period.

3.3 <u>Exclusions</u>. Notwithstanding the foregoing, You will not be eligible for Debt Cancellation if Your Total Disability is caused by or results from any of the following: (a) normal pregnancy or childbirth; (b) an intentionally self-inflicted Injury, whether You are sane or insane; (c) flight in non-scheduled aircraft; (d) war, declared or undeclared, including any act of war; or (e) foreign travel or residence.

3.4 **<u>Amount of Debt Cancellation</u>.** The amount of Debt Cancellation for Total Disability shall equal the minimum monthly payment due each month beginning with the minimum monthly payment first due after the 30 (thirty) day non-retroactive waiting period following the date Your Disability began and continuing for as long as You remain disabled (the "Eligible Debt Amount") and not to exceed the lesser of: (a) 12 (twelve) minimum monthly payments or (b) $10,000 (ten thousand dollars), the Program Limit. Any unpaid late fees and any additions to the account debt after the date of Total Disability are excluded from the calculation of the Eligible Debt Amount due to Your Total Disability, and You will remain obligated to pay such amounts. If You suffer a Total Disability within 90 (ninety) days following termination of a Debt Cancellation Period, the non-retroactive waiting period of 30 (thirty) days, does not apply and the Total Disability will be considered a continuation of the preceding Total Disability for purposes of calculating the maximum period of protection. If You suffer a Total Disability more than 90 (ninety) days following termination of a Debt Cancellation period, the Total Disability will be considered a new Debt Cancellation Event and the 30 (thirty) day non-retroactive waiting period will be applicable.

4. **Hospitalization Protection**

4.1 **<u>Debt Cancellation Due to Hospitalization</u>.** Debt Cancellation due to Your Hospitalization is only available to the Primary Cardholder. Hospitalization means that You are admitted to a hospital due to a medical condition and remain a patient at the hospital for at least 2 (two) consecutive days. The term "Hospital" includes any licensed medical Hospital or chiropractic Hospital, acute care facility, convalescent nursing facility, residential drug, psychiatric or hospice facility. You must require continuous care by a Physician for at least 2 (two) consecutive days. You must continue to make Your monthly payments in accordance with the CA until the Program Administrator receives and approves Your Debt Cancellation Request Form. To obtain a Debt Cancellation Request Form, You may contact Us at the address or telephone number listed in the Program Administrator section below. If the Program Administrator approves Your request, We will cancel Your obligation to pay the Eligible Debt Amount.

4.2 **<u>Notice of Hospitalization Requirements</u>.** To obtain Debt Cancellation for Hospitalization, the Program Administrator must approve Your request for Debt Cancellation after Your submission of a Debt Cancellation Request Form at the address provided in the Program Administrator section below. You must provide the Debt Cancellation Request Form, and any additional information reasonably requested by the Program Administrator, including hospital records following the 2 (two) day non-retroactive waiting period but prior to 120 (one hundred twenty) days following the first day of Your Hospitalization (the "Debt Cancellation Period"). After the initial Debt Cancellation Request Form has been furnished and the Program Administrator has approved Your request for Debt Cancellation, You must thereafter provide Debt Cancellation Request Forms to the Program Administrator throughout the Debt Cancellation Period on a monthly basis, or as otherwise requested by the Program Administrator. We have the right to request that You provide the Debt Cancellation Request Form as often as reasonably necessary for Us to evaluate whether Your Hospitalization is continuing. Failure to furnish such proof with Your Debt Cancellation Request Form shall not invalidate or reduce the amount of cancelled debt, provided that You furnish such proof as soon as reasonably possible and in no event later than 1 (one) year after the Debt Cancellation Period.

4.3 **<u>Amount of Debt Cancellation</u>.** The amount of Debt Cancellation for Hospitalization shall equal the minimum monthly payment due each month beginning with the minimum monthly payment first due after the 2 (two) day non-retroactive waiting period following the date Your Hospitalization began and continuing for as long as You remain hospitalized (the "Eligible Debt Amount") and not to exceed the lesser of: (a) 12 (twelve) minimum monthly payments or (b) $10,000 (ten thousand dollars) the Program Limit. Any unpaid late fees and any additions to the account debt after the date of Hospitalization are excluded from the calculation of the Eligible Debt Amount due to Your Hospitalization, and You will remain obligated to pay such amounts. If You experience Hospitalization within 90 (ninety) days following termination of a Debt Cancellation Period, the non-retroactive waiting period of 2 (two) consecutive days, does not apply and the Hospitalization will be considered a continuation of the preceding Hospitalization for purposes of calculating the maximum period of protection. If You experience Hospitalization more than 90 (ninety) days following termination of a Debt Cancellation Period, the Hospitalization will be considered a new Debt Cancellation Event and the 2 (two) consecutive day non-retroactive waiting period will be applicable.

PROTECTION FOR PRIMARY CARDHOLDER AND JOINT CARDHOLDER: The [Name of Program] Program provides the following protection to You, the Primary Cardholder and Your Joint Cardholder:

5. **Loss of Life Protection**

5.1 **<u>Debt Cancellation Due to Loss of Life Protection</u>.** Debt Cancellation due to Loss of Life is available to the Primary Cardholder and Joint Cardholder, if any. If You die while the Program is in effect ("Loss of Life"), Your estate/survivors will not be responsible to pay the Eligible Debt Amount, as defined in Section 5.4 below. After the Loss of Life, Your estate/survivors must continue to make the monthly payments in accordance with the CA until the Program Administrator receives and approves the Debt Cancellation Request Form. To obtain a Debt Cancellation Request Form, You may contact Us at the address or telephone number listed in the Program Administrator section below. If the Program Administrator approves the request for Debt Cancellation, We will cancel the obligation to pay the Eligible Debt Amount.

5.2 **<u>Notice of Loss of Life Requirements</u>.** To obtain Debt Cancellation for Loss of Life, the Program Administrator must approve Your request for Debt Cancellation after Your submission of a Debt Cancellation Request Form at the address provided in the Program Administrator section below. The Debt Cancellation Request Form and any additional information reasonably requested by the Program Administrator, including a certified copy of the death certificate, must be provided to the Program Administrator within 90 (ninety) days of the Loss of Life Date. If the death certificate has not been issued within such 90 (ninety) day period, however, the death certificate must be provided within a reasonable time after its issuance. The Loss of Life request for Debt Cancellation will not be considered until the Program Administrator has received the death certificate.

5.3 <u>Exclusions</u>. Notwithstanding the foregoing, You will not be eligible for Debt Cancellation if Your death is caused by or a result of suicide within 1 (one) year from the Effective Date.

5.4 **<u>Amount of Debt Cancellation</u>.** The amount of Debt Cancellation for Loss of Life shall equal the lesser of the Outstanding Account Balance on the date of Your death (the "Eligible Debt Amount") or $10,000 (ten thousand dollars), the Program Limit. Any unpaid late fees and any additions to the account debt after the date of Loss of Life are excluded from the calculation of the Eligible Debt Amount due to Loss of Life, and Your estate/survivors will remain obligated to pay such amounts. Upon Debt Cancellation due to Loss of Life under the Program, We will terminate all other protections under the Program. In the event of the Joint Loss of Life of both the Primary Cardholder and Joint Cardholder, if any, We will cancel the Eligible Debt Amount only.

<u>TERMINATION OF AMENDMENT AND REFUNDS</u>

You have the right to terminate this Amendment at any time upon written notice to Us. You must deliver Your termination notice to either Our Program Administrator or Us. The Program Amendment will terminate on the earliest to occur of the following: (1) the date We receive Your termination notice; (2) a default under the terms of the CA; (3) You are more than 90 (ninety) days past due in making the minimum monthly payment as shown on the statement; (4) the Eligible Debt Amount is cancelled as a result of Loss of Life; or (5) We cancel the Amendment with 30 (thirty) days written notice.

<u>PHYSICAL EXAMINATION AND AUTOPSY</u>

While a request for Debt Cancellation is pending, We have the right, at Our own expense, to examine Your person and the nature of Your request for Debt Cancellation due to Disability or Hospitalization or to require an autopsy if not forbidden by law, if Loss of Life protection is requested.

FOR INFORMATIONAL PURPOSES ONLY

FOR INFORMATIONAL PURPOSES ONLY

PROGRAM ADMINISTRATOR

To qualify for Debt Cancellation, You or someone on Your behalf must file a Debt Cancellation Request Form with the Program Administrator in accordance with the requirements of this Amendment. To receive a Debt Cancellation Request Form, You may call or write the Program Administrator's Customer Care Center by calling toll free at [1-8XX-XXX-XXXX], [X:00 A.M. to X.00 P.M.] Eastern Time, Monday through Friday, except on Federal Banking holidays. Written correspondence and other documents should be sent via U.S. mail to:

[Name of Program]
Customer Care Center
PO Box [TBD]
Any City USA 12345

ARBITRATION

This Amendment to the CA takes place in and substantially affects interstate commerce. Any dispute, controversy, benefit requests, demands, losses, damages, actions or causes of action that You or Your beneficiary, including their respective heirs, personal representatives, successors and assigns (each referred to in this Arbitration section as "claimant") arising out of or relating in any way to this Amendment, or to the solicitation for and/or sale of this Amendment, shall be settled by arbitration under the provision of the Federal Arbitration Act, 9 U.S.C., Section 1, et seq. Such arbitration shall be governed by the rules of the American Arbitration Association. The arbitration shall be conducted at Our home office or such other location upon which both the claimant and We agree. The arbitration panel shall consist of three arbitrators, 1 (one) selected by Us, 1 (one) selected by the claimant and 1 (one) selected by the arbitrators previously selected.

If We, a claimant, or a third party have any dispute that is directly or indirectly related to a dispute governed by this arbitration provision, the claimant and We agree to consolidate all such disputes.

The arbitration shall be binding upon the claimant and Us. Any award may not be set aside in later litigation except upon the limited circumstances set forth in the Federal Arbitration Act. The claimant and We give up the right to seek remedies in court, including the right to a jury trial. Judgment upon the award rendered may be entered in any court having jurisdiction thereof. The arbitration expenses shall be borne by the losing party, or by both parties in such proportion as the arbitration may decide.

If this arbitration section or any terms thereof are deemed by any court of competent jurisdiction to be legally unenforceable, We and You agree that such a ruling shall not affect the enforceability of the remainder of these arbitration terms and/or this Amendment.

FOR INFORMATIONAL PURPOSES ONLY

FOR INFORMATIONAL PURPOSES ONLY

APPENDIX 6

#	Name (Initials)	City	State	Would you buy this optional insurance again?	Good Value in comparison to benefits received?	Date Received
1	M.A.	Hartford	SD	Yes	Yes	3/12/2010
	Since being off work, this insurance has really helped ease my financial obligations. Thank you.					
2	L.Q.	Mission	SD	Yes	Yes	5/14/2010
	In my time of need the insurance made my payments in a timely manner. Thank you.					
3	R.A.	Avon	SD	Yes	Yes	8/9/2010
	Gave me extra cash to pay bills since I had no other income coming in.					
4	M.T.	Vermillion	SD	Yes	Yes	10/4/2010
	Help me cover the loan.					
5	C.B.	Sioux Falls	SD	Yes	Yes	11/15/2010
	My benefits from you were excellent. A treasured relief!! Thank You.					
6	T.B.	Yankton	SD	Yes	Yes	11/17/2010
	It was awesome. I would recommend it to anybody that needs it.					
7	S.R.	Sioux Falls	SD	Yes	Yes	1/22/2009
	They paid - I am still unable to work.					
8	L.S.	Hayti	SD	Yes	Yes	1/29/2009
	It helped us keep our boat without defaulting on our loan! Thanks					
9	K.M.	Rapid City	SD	Yes	Yes	5/8/2009
	While I was out with back surgery, this insurance picked up where I had left off on my payments and kept me up-to-date. I'm glad I had this insurance					
10	D.D.	Canistola	SD	Yes	Yes	6/22/2009
	If it was not for insurance we would have lost our cars					
11	M.M.	Aberdeen	SD	Yes	Yes	8/10/2009
	I was very impressed how my application was processed so fast and payment to GMAC.					
12	T.T.	Wtn	SD	Yes	Yes	9/10/2009
	After I had surgery and was out of work for a month, they helped with payments for 2 months! Help me w/ bills tremendously!					
13	J.B.	Redfield	SD	Yes	Yes	12/21/2009
	While being hurt from a fractured pelvis, it did take a few phone calls to my bank, and to the claims dept. Finally getting someone to help us with understanding the payment procedure. Being very protective of my credit, I'm happy to say thanks CSO for being there in time of need. I'm glad I had this insurance to help us in our time of need. I recommend this investment to anyone who has a loan. Thanks again.					
14	S.L.	Revillo	SD	Yes	Yes	1/21/2008
	Sam had shoulder surgery & workers comp only pays 2/3 of his salary. It was a great help to us.					
15	S.S.	Watertown	SD	Yes	Yes	1/21/2008
	It's a good feeling that I have someone & insurance that backs you up in need it's a good feeling that takes a lot of the worry away.					
16	D.C.	Emery	SD	Yes	Yes	4/29/2008
	Didn't like having to fill our a monthly form the doctor charged each time. Although I wish we had coverage on all our loans.					
17	S.R.	Sioux Falls	SD	Yes	Yes	4/8/2008
	I am now disabled and the insurance helped me with my bill.					
18	E.V.	Camp Crook	SD	Yes	Yes	5/12/2008
	It helped toward my 2 car payments that came due while I was recovering from heart attack.					
19	L.R.	Vienna	SD	Yes	Yes	5/12/2008
	Helped me stay afloat thru hard time. Thanks for being there.					
20	T.G.	Henry	SD	Yes	Yes	6/16/2008
	It helped with being able to pay other bills & still keep food on the table for my kids.					
21	D.B.	Roscoe	SD	Yes	Yes	8/18/2008
	Very helpful in this time of financial stress the economy is in right now with high gas and high groceries and of cause my medical expenses.					
22	L.M.	Sturgis	SD	Yes	Yes	10/30/2008
	It was a great deal of help when I became disabled not to worry about how to make this payment.					