



CONSUMER CREDIT INDUSTRY ASSOCIATION  
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SCOTT J. CIPINKO, JD, AIRC  
EXECUTIVE VICE PRESIDENT & CHIEF OPERATING OFFICER

April 29, 2011

Via email to: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)  
Ms. Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System,  
20th Street and Constitution Avenue, NW.,  
Washington, DC 20551.

RE: 12 CFR Part 226  
[Regulation Z; Docket No. R-1406]  
RIN No. 7100-AD 65

Dear Ms. Johnson:

CCIA is a national trade association of insurance companies and other financial service providers selling or servicing consumer credit insurance and related products. Our member insurance companies account for more than 80% of the national premium volume written for these lines of insurance. Since its inception in 1951 CCIA has been dedicated to preserving and enhancing the availability, utility, and integrity of credit insurance and related products. We are writing to request clarification of the impact of changes in the escrow requirements, as well as for consistency in terms under proposed Federal Rule R-1406.

Our comments address (1) the proposed disclosures regarding force-placed property insurance when a borrower fails to pay the insurance premiums; and (2) the treatment of optional credit insurance and debt protection products.

### **Consequences of failing to pay the insurance premiums**

The draft of Proposed Rule R-1406 indicated that for consumers who do not maintain insurance protecting the mortgaged home, the lender can purchase insurance and require the consumer to pay the insurance premium. The consumer must maintain insurance on the vehicle to protect the lender's interest. The lender insures only the lender's interest which is the amount of the debt. This coverage is referred to as "creditor-placed" insurance. We are unsure as to the comparison of the cost of the creditor-placed insurance since the coverage is not directly comparable to standard homeowners insurance that the consumer would purchase which would not only to protect the asset (the home), but also the consumer's content and belongings. In as much as there is no direct comparison of cost and coverage, we believe that to require lenders to state that the creditor-placed coverage is more expensive and provides fewer benefits than traditional homeowners insurance may not be an accurate statement and may be misleading. Alternately, we would request that the required language proposed in Section Proposed § 226.19(f)(2)(ii)(F) be revised as follows:

*(F) Consequences of failure to pay home-related costs.* A statement that, if the consumer does not pay the applicable home-related costs, the creditor could require an escrow account on the mortgage or add the costs to the loan balance. A statement that the creditor or servicer could also require the consumer to pay for insurance that the creditor buys on the consumer's behalf and a statement that this insurance will likely not protect the consumer's interests as traditional homeowner's insurance would .

We would request a similar change be made to Proposed § 226.20(d)(2)(vi):

(vi) *Consequences of failure to pay home-related costs.* A statement that, if the consumer does not pay the applicable home-related costs, the creditor or servicer could require an escrow account on the mortgage or add the costs to the loan balance. A statement that the creditor or servicer could also require the consumer to pay for insurance that the creditor or servicer purchases on the consumer's behalf and a statement that this insurance will likely not protect the consumer's interests as traditional homeowner's insurance would.

### **Optional Credit Insurance and Debt Protection Products.**

Potential conflict with the current MDIA rules. The proposed escrow rules may potentially conflict with the current MDIA rules. Please see the following explanation.

In September 2010, the Board issued rules implementing the Mortgage Disclosure Improvement Act (FRB R-1366) (MDIA), effective January 30, 2011. The new rules specifically prohibit a creditor from including the premiums and fees for credit insurance and debt protection products in the new payment table. (Previously, the rules allowed the premiums and fees to be included in the monthly payment disclosed in the Payment Schedule.) Under the new rules, however, borrowers who have purchased optional credit insurance or debt protection products would receive a payment disclosure that is not accurate because the monthly payment disclosed does not include the cost of those optional products.

The currently proposed escrow rules further confuse this issue and may even conflict with the MDIA rules. Proposed comment 3 to Section 226.45(b)(1) states:

3. *Optional insurance items.* Section 226.45(b)(1) does not require that an escrow account be established for premiums for mortgage-related insurance that the creditor does not require in connection with the credit transaction, such as earthquake insurance or credit life insurance.

We would appreciate your clarification by including a statement that although these optional product amounts are not required to be included in the escrow account statement, they may be disclosed if a creditor chooses to do so.

We also ask that the MDIA rules be revised to allow the creditor to disclose the charges for the optional products in the payment schedule table so that the disclosures are accurate when a creditor does choose to include credit protection charges in the escrow account. This will provide for the most consistent, and accurate disclosure of the borrower's mortgage loan payment as well as the escrow items and amount. We would suggest that the payment table be revised as follows (revisions are in red italics):

<b>INTEREST RATE AND PAYMENT SUMMARY</b>			
	<b>INTRODUCTORY Rate &amp; Monthly Payment (for first 5 years)</b>	<b>MAXIMUM during FIRST FIVE YEARS (beginning in the 61<sup>st</sup> month)</b>	<b>MAXIMUM EVER (as early as the 121<sup>st</sup> month)</b>
<b>Interest Rate</b>	____%	____%	____%
Principal + Interest Payment	\$ ____	\$ ____	\$ ____
[Estimated Taxes + Insurance (escrow)] •[Includes [Private] Mortgage Insurance]	\$ ____	\$ ____	\$ ____
<b>TOTAL ESTIMATED MONTHLY PAYMENT (without optional products)</b>	\$ ____	\$ ____	\$ ____
<b>TOTAL ESTIMATED MONTHLY PAYMENT (with optional products)</b>	\$ ____	\$ ____	\$ ____
<i>This charge [is][is not] included in your escrow</i>			

This is a straight-forward, easily understandable disclosure that provides complete and accurate information regarding the borrower's monthly loan payment and escrow.

Inclusion of debt protection products in Comment 226.45(b)(1) – 3. We request clarification that debt protection products can also be included in the escrow account if a creditor chooses (rather than just insurance items). We would suggest revising proposed Comment 226.45(b)(1) – 3 to read as follows:

3. *Optional products.* Section 226.45(b)(1) does not require that an escrow account be established for charges for mortgage-related insurance and other products that the creditor does not require in connection with the credit transaction, such as earthquake insurance, credit insurance, or debt cancellation and debt suspension products. A creditor may, however, at its option, choose to include the cost of such products in an escrow account.

This revision would achieve the Board's goal to maintain consistency in treating credit insurance and debt protection the same for Reg Z purposes and clarifies that a creditor may include both products in the escrow account if they so choose.

We respectfully request that these revisions and comments be accepted and incorporated into your proposed Rule R-1406, for the reasons stated herein.

Respectfully Submitted,



Scott J. Cipinko,  
Executive Vice President