

Center for Economic Justice

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December 2, 2000

Rosanne Mead
Chair, Suitability Working Group

Re: Comments on Draft Suitability Regulation: No Exemption for Credit Life

Dear Ms. Mead:

In response to a number of insurer comments that the credit life insurance should be exempt from the proposed suitability regulation, the Center for Economic Justice (CEJ) requests and recommends that credit life insurance be covered by the proposed regulation.

CEJ has extensive experience in credit insurance matters and was the co-author of a March 1999 report that identified a number of problems with the sale of credit insurance, including credit life insurance.

Suitability Analysis Requirements Appropriate

Credit life insurance is term life insurance sold in conjunction with a specific loan and is intended to pay off the loan in the event of the borrower's death. Credit life insurance is sold in conjunction with open-end loans (e.g. credit card) and closed-end loan (e.g., auto, home equity loans). Credit life insurance premiums are paid on a monthly basis (typically for open-end loans) and on a single premium basis (typically on closed-end loans). For the single premium products, the consumer pays the entire premium for multi-year coverage up front and the premium is typically financed. Moreover, in most cases, the amount of insurance for single premium products is typically based upon the gross indebtedness, which is the total principal and interest payments over the term of the loan and coverage.

When sold in conjunction with home equity loans, the single premium for credit life insurance can be several thousands of dollars. I have seen instances of credit life single premiums of \$7,500. In addition to the very large premium, in some instances, the product initially provides far greater coverage than necessary to pay off the loan but insufficient coverage to pay off the loan later in the term of coverage.

The sale of single premium credit life insurance in some instances has been part of predatory lending strategies by some lenders and leads to debt payments far greater than the consumer's ability to pay and to loss of equity by the consumer. These practices harm consumers. Earlier this year, the United States Departments of Housing and Urban Development and Treasury jointly issued a report on predatory lending practices. The report concluded that, "the charging and financing of single premiums is unfair, abusive, and deceptive . . ."

In addition, Fannie Mae and Freddie Mac – the largest purchasers of mortgage loans – announced policies in response to the problems with the sale of single premium credit life insurance. Both organizations will no longer purchase mortgages or other loans with which single premium credit life insurance was sold.

Application of the suitability regulation to credit life insurance, or at least certain types of credit life insurance, is reasonable and necessary.

Response to Industry Comments

Some industry commenters argued that credit life should be exempt from the suitability regulation because it is exempt from the life disclosure and life replacement models. The fact that a product is exempt from one model, in and of itself, is not a basis for excluding the product from another model. For example, credit life is correctly exempt from the replacement model because there is no possibility of replacing a credit life policy since it is tied to a specific loan. Credit life is cancelled if the loan is paid off before the full term of coverage, but not replaced.

Assurant argues for exemption of credit life because they allege that "Credit life insurance is uniquely suited to the circumstances and purpose for which it is designed and sold, to payoff or assist in paying off the specific debt for which the insurance is purchased. (If the debtor has life insurance other than credit life insurance, the credit life insurance will serve to preserve such other insurance for use by the debtor's beneficiaries.)" Since consumers purchase life insurance to, among other things, pay off debts in the event of death, it is unclear if the sale of credit life insurance is suitable to "preserve other insurance." It is clear that such a rationale does not apply to all consumers.

The Consumer Credit Insurance Associations states, "It should also be noted that at the time credit insurance is offered the creditor has already made some determination that the borrower may need insurance or additional insurance as part of the credit underwriting process. This determination involves a needs analysis or suitability study required under banking laws that could run counter to that proposed in the Model." This allegation is typically NOT the case because the purchase of credit life insurance is almost always a voluntary purchase by the borrower. Clearly, if a creditor made a determination that the borrowers needs more insurance to protect the lender's collateral, the purchase of insurance would be required.

CCIA also states, "Each time a consumer takes on new or additional debt he or she necessarily needs additional life insurance to cover that new liability. Credit life insurance meets that need exactly. It insures only the amount of the indebtedness for the term of the indebtedness. No other insurance product could be more suited to that purpose." This statement graphically points out the need for application of the suitability regulation to credit life insurance. This statement suggests that, instead of a larger term or other life insurance policy to cover a variety of needs in the event of death, a consumer should purchase a series of credit life insurance policies for all of his or her loans. This is obviously not the case. Moreover, the fact that the purchase of credit insurance is almost always voluntary contradicts the claim that each new debt means a consumer "necessarily needs additional life insurance."

We submit that these views of consumer needs offered by Assurant and CCIA vividly demonstrate the need for application of the suitability regulation to credit life insurance.

Thank you for your consideration.

Sincerely,

Birny Birnbaum