The Center for Economic Justice

December 23, 2010

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

Docket R-1390 – Regulation Z, Credit Protection Disclosures

Ms. Johnson,

We support the comments of the consumer and civil rights groups urging the Board to withdraw the Docket, but we write to comment on the proposed disclosures for credit protection products and to respond to comments made by lenders objecting to the proposed disclosures.

We use the term "credit protection products" to refer to credit insurance (including credit life, credit disability, credit involuntary unemployment, credit family leave, credit personal property, credit GAP and other insurance products sold in connection with a consumer loan and regulated by the states as insurance) and debt cancellation contracts, debt suspension agreements and related products regulated by federal banking agencies as a banking product. We will refer to credit protection products as "CPP", credit insurance as "CI" and debt cancellation contracts and debt suspension agreements as "DCC/DSA".

CPP require robust consumer protection requirements for several reasons:

1. The markets for CPP are characterized by reverse competition whereby competition among insurers selling CI or administering DCC/DSA products raises the price of the product to consumers.

2. Consumers presented with these products at the point of sale of the loan are a captive audience and in a vulnerable position. The nature of the sale makes the purchase of an important financial security tool an impulse purchase.

3. CPP are typically a very poor value for consumers and a poor choice for insurance protection.

4. By far, lenders are the primary beneficiary of the sale of CPPs. Lenders benefit by receiving over 80% of the premium or fee paid by consumers, by receiving payment on loans from customers whose ability to pay has been compromised without incurring collection expenses and by receiving additional interest income from financing the insurance premium or debt cancellation/debt suspension fee.

5. Given the poor value for consumers and the large benefits for lenders from the sale of payment protection products, lender claims about the benefits of payment protection products for their customers must be viewed with skepticism.

6. Current regulation of CI by state insurance departments and DCC/DSA by federal agencies has not effectively protected consumers.

7. Current disclosures have proven ineffective as evidenced by the abusive sales of financed single premium credit insurance in connection with real estate-secured loans. The Departments of Treasury and Housing and Urban Development concluded that the sale of financed single premium credit insurance was "abusive, misleading. . ." While there have been some limitations on sales of some financed single premium credit insurance – Fannie and Freddie will no longer purchase loans with these products – the disclosures for payment protection products have not changed since that 2000 report and state insurance regulators have done nothing new to address problems in credit insurance markets.

<u>The proposed disclosures are an improvement over current disclosures required by the Truth in Lending Act, state insurance laws and federal regulations regarding debt cancellation contracts and debt suspension agreements.</u> However, the market failures reflected in the sale of payment protection products are structurally significant, such that disclosure alone will not empower consumers. We recommend the following:

1 The sale of financed single premium CI and financed single fee DCC/DSA products should be prohibited with sales limited to products with monthly payments based on outstanding principal balance. The financing of the premium or fee in any way should be prohibited.

2 The sale of CPPs should be prohibited for seven days after loan closing to enable the consumer to make a thoughtful purchase without the pressure of a loan closing.

3 Consumer disclosures should be strengthened with
   a. information on the portions of the premium or fee historically paid out as benefits for the consumer and as compensation for the lender;
   b. information on the frequency of a benefit paid by type of covered event – e.g., this payment protection product paid on average X claims per 1,000 consumers purchasing the product over the past three years;
   c. information on the monthly payment with and without the CPP;

d. in the event the sale of financial single premium CI and financed single fee DCC/DSA are not prohibited, a bold statement "The cost of this product is being added to your loan. You loan amount will increase, you will pay more interest on the loan and your equity will be reduced."
e. Information to enable the consumer to calculate the monthly charge. The proposed disclosures include statements "this product will cost up to $XX per month." This is important information for the consumer, but the consumer also needs information to understand how the monthly charge is calculated to, among other things, enable the consumer to check the month charges for accuracy.

Most, or all, of the lender comments in opposition to the proposed disclosures are without empirical support or a logical basis. Given the great benefits realized by lenders from the sale of CPP at the expense of consumers, lender claims about consumer benefits from CPP must be viewed skeptically.

1. Lenders assert that the disclosures will harm lenders by reducing product sales. The proposed disclosures better empower consumers to make informed choices. If the lender is selling a product useful to the consumer at a fair price, then the proposed disclosures should not dampen sales. In any event, the purpose of the disclosures is to protect consumers, not lender sales of the product.

2. Lenders assert that the disclosures would discourage consumers from purchasing the products and put their consumers' financial future at risk. This is incorrect. First, the disclosures better inform consumers and better empower the consumers to make a reasoned decision about the purchase of a financial security tool. Second, the high price and low value of these products add significant costs to loans and, thereby, put consumers' financial future at risk. Third, the disclosures will prompt consumers to better consider the available options for insurance instead of simply purchasing the only product sold by the lender.

3. Lenders argue that the sale of small-amount CPP at point of loan sale is a convenience for the consumer and consumers are willing to pay for this convenience – just as consumers pay more for small quantities of milk at a convenience store than they would for a gallon of milk at the supermarket. The analogy is completely misplaced. Financial advisors will counsel consumers to consider a comprehensive approach to insurance to better protect the consumer and her family. It makes no more sense to purchase several small amounts of insurance tied to a specific loan than it does to purchase several health insurance products tied to individual diseases.

4. Lenders assert the disclosures portray the products in a negative light. This is incorrect. The disclosures provide a stronger alert than current disclosures to more thoughtfully consider the purchase of the product and highlight issues found – through focus group testing – to be of concern to consumers. The fact that more informed consumers may purchase fewer CPPs does not mean the products have been portrayed in a negative light, but, rather, that consumers have made more informed choices.

5. Lenders assert the disclosures are misleading and inaccurate. Lenders have provided no substantive explanation or evidence to support this claim. The disclosures respond to demonstrated market problems and focus group research.

Sale of Credit Protection Products in Connection with HELOC and Closed-End Loans

Credit insurers sell a credit insurance group policy to the lender. The lender then sells the credit insurance to the borrower on behalf of the credit insurer and issues a certificate of insurance under the group policy to the borrower. The entities that sell credit insurance on behalf of the credit insurers are more generally called *producers* and include banks, credit unions, finance companies, automobile dealers, department stores, furniture stores and jewelry stores. These entities are called producers because they produce the business for the credit insurer. Consequently, credit insurers market their products to the producers of business rather than to the ultimate consumers. In the case of dealer-sold credit insurance – auto dealers, furniture stores, jewelry stores – the producer is typically not the lender. For example, an automobile dealer is a producer and sells credit insurance as part of arranging vehicle financing, but the automobile dealer is typically not the ultimate lender.

CI and DCC/DSA products are typically offered to the consumer when the consumer is obtaining a loan or financing purchase of a vehicle or product. The lender (or producer) selects the package of credit insurance products to be offered to the consumer. The consumer's choice is effectively limited to accepting or not accepting the specific coverages selected by the lender. Although federal regulators have declared DCC/DSA as banking products and not insurance products subject to oversight by state insurance regulators, the CI and DCC/DSA products are similar to both consumers and lenders. For a consumer, DCC/DSA products are the same as CI products – both relieve a consumer of payment when certain events occur. For lenders, the same entities administering the credit insurance program and selling a lender a group credit insurance policy are selling lenders a contractual liability policy to pay any amounts waived or suspended by the lender and are administering the DCC/DSA program for the bank. Because CI and DCC/DSA products are nearly identical to consumers and lenders, the same market forces and dynamics are found for each set of products.

Reverse Competition and Regulation of Credit Insurance

The dominant characteristic of CPP markets throughout the country – and other countries, as well – is *reverse competition.* The CI policy is a group policy sold to a lender who then issues certificates to individual borrowers. The lender sells DCC/DSA loan modifications to individual borrowers. Because the lender purchases the policy, credit insurers and DCC/DSA administrators market the products to the lenders and not to the borrower -- the ultimate consumer who pays for the product. This market structure leads insurers to bid for the lender's business by providing higher commissions and other compensation to the lender. Greater competition for the lender's business leads to higher prices of CPP to the borrower. This form of competition, which results in *higher* prices to consumers, is called *reverse competition*.
The New York State Department of Insurance credit insurance regulation 27A describes the problem:

> Section 185.0
> (b) In the marketing of credit insurance, the inferior bargaining position of the debtor creates a captive market in which, without appropriate regulation of such insurance, the creditor can dictate the choice of coverages, premium rates, insurer, agent and broker, with such undesirable consequences as: excessive coverage (both as to amount and duration); excessive charges (including payment for nonessential items concealed as unidentifiable extra charges under the heading of insurance); failure to inform debtors of the existence and character of their credit insurance and the charges therefore, and consequent avoidance of the protection provided the debtor by such coverage.
>
> (c) In the absence of regulation, premium rates and compensation for credit insurance tend to be set at levels determined by the rate of return desired by the creditor in the form of dividends or retrospective rate refunds, commissions, fees, or other allowances, instead of on the basis of reasonable cost. Such reverse competition, unless properly controlled, results in insurance charges to debtors that are unreasonably high in relation to the benefits provided to them.

Unfortunately, the fact that CI products are regulated does not mean the products are regulated effectively. As shown below, state insurance departments have generally done a poor job of protecting consumers from abuses in credit insurance markets.

When states establish prima facie rates for credit life and credit disability insurance, credit insurers are generally allowed to charge lower rates if they want.[1] Few credit insurers do so. Because of reverse competition, a credit insurer who wants to offer the ultimate consumer a lower rate will simply not be able to get a lender to select the product. The lender will select another credit insurer who, by charging a higher rate to the ultimate consumer, can offer a higher commission to the lender.

Consumer Choice

In a reverse-competitive market, the consumer is unable to effectively exert normal competitive pressure on the original seller of the product. This is the case in credit insurance. The choice of what credit insurance products to offer is made by the lender, who buys the group policy from the credit insurer. The ultimate consumer – the borrower – is effectively limited to accepting or rejecting the package offered. In most cases, the consumer cannot choose the coverage or coverages he or she wants.

Another critical feature of the credit insurance transaction is that it is typically a minor aspect (to the borrower) of a larger transaction – the loan to purchase a car, jewelry or furniture. Some consumers may feel they must purchase the credit insurance to get the financing to buy the product they want.

Consumers cannot practically shop around for credit insurance. If a consumer purchases a product and finances the purchase at one store or auto dealer, he or she cannot decide to go elsewhere to purchase the credit insurance for that loan. Unlike other insurance products, such as homeowners or automobile insurance, there is no marketplace for the insurance separate from the lender financing the purchase. The consumer's inability to shop around for credit insurance is part of the market structure that allows the lender to dictate the terms of the credit insurance sale. Finally, the nature of the CPP sales puts the consumer at a disadvantage relative to the lender. The product is offered at the time of loan closing. The sales pitch typically takes a minute or two.

[1] The Colorado credit insurance regulation allows credit insurers to use lower rates than those filed with the Insurance Commissioner.

> "If you die, your loan is paid off. If you are age 65, you qualify. Insurance on your spouse is available if your spouse is a co-borrower. Disability insurance is available to fulfill your monthly payments if you are disabled. You must remain disabled for fourteen days before you receive any benefits. The cost of the insurance is shown on this form. It will be added to the amount you borrow and will be financed. Your monthly payment including insurance is this amount. If you wish the insurance, just sign the blocks marked." [2]

At best, this makes the purchase of the product an impulse purchase instead of a thoughtful purchase by the consumer about how best to protect herself and her family. At worst, the sale at time of closing creates an opportunity for the lender to pressure the consumer into the purchase and for the consumer to mistakenly believe the purchase of the product is related to the granting of the loan.

Numerous studies of CPP have shown problems with sales and poor value for consumers.[3] The United Kingdom Competition Commission conducted a multi-year study of the markets for CPP – called payment protection products in the UK. After extensive study[4], the Competition Commission concluded:

> 1. We found that each distributor and intermediary faces little competition for the sale of Payment Protection Insurance (PPI) when it is sold in combination with the credit it insures. We found that there were features of relevant markets which led to an adverse effect on competition (AEC) in these markets and in turn resulted in consumers facing higher prices and less choice than they would if there was effective competition between PPI providers. As a result of this lack of competition we found that it is highly profitable for distributors to sell PPI, though we found that some of the resultant profit is used to subsidize credit prices. We concluded that there were serious deficiencies in the competitive process for selling PPI policies, and, in order to remedy the adverse effects identified, a package of remedies would be required which includes some significant restrictions on what parties selling both PPI and credit can do (and also impose some burden on parties that offer only PPI to consumers). We concluded that such an intervention in these markets would enhance overall consumer welfare, and that the scale of the problem identified warranted a significant intervention.

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[2] See Fagg, Gary, *Credit Life and Disability Insurance*, 1986 at page 459 available at http://creditre.net/books.htm.

[3] See reports by the Center for Economic Justice, Consumers Union and the Consumer Federation of America at http://www.cej-online.org/creditinsurance.php and http://www.cej-online.org/dccdsamainpage.htm.

[4] See http://www.competition-commission.org.uk/rep_pub/reports/2009/fulltext/542.pdf for the final report with recommendations to address lack of competition and http://www.competition-commission.org.uk/rep_pub/reports/2009/542ppi.htm for

> 2. We concluded that we should impose: a prohibition on distributors and intermediaries from selling PPI to their credit customers within seven days of a credit sale, unless the customer has proactively returned to the seller at least 24 hours after the credit sale; a prohibition on selling single-premium PPI policies (where the premium is paid in one upfront payment, generally by adding the premium to the credit borrowed); a requirement on retail PPI distributors to offer retail PPI separately when they also offer retail PPI bundled with merchandise cover; and several requirements to provide specified information in marketing materials, at the points of sale of credit and PPI, and each year after the PPI policy has entered into force.

Poor Value for Consumers / Great Benefits for the Lenders

Credit insurance is a poor value for consumers. The best measure of aggregate value to consumers is the ratio of benefits received by consumers (e.g., amounts paid to the lender on behalf of the borrower or amounts waived or suspended by the lender) to the premiums or fees paid by consumers. For credit insurance, the benefit (or loss) ratios are very low – in the low 40's for credit life, in the high 30's for credit disability, in the teens for credit involuntary unemployment and ZERO for credit family leave. See attached tables showing loss ratios for credit insurance. The benefit ratios for DCC/DSA are even lower.[5]

The benefit ratios for traditional life and disability insurance are much higher. The best comparison is between benefit ratios for CPP and group life and group disability because the sale of CPP is much more like the sale of group life or group disability than individual life or disability. For the individual policies, the sales take much longer and involve the gathering of much more personal information for more detailed underwriting. Stated differently, the underwriting and administrative costs for credit insurance track those of group life and group disability and are not similar to those costs for individual products.

Group life and group disability insurance policies produce much higher loss ratios than credit insurance. Data from annual statements, compiled by A.M. Best, shows a loss ratio a ten-year (1999-2008) average loss ratio (benefits paid divided by premium income) for ordinary life of 67.3%, for group life of 73.2% and for group disability of 77.0%.

CPP are generally very expensive relative to alternative insurance products. There is one price for CPP regardless of age. As a result, younger and middle-aged consumers have access to much lower cost term life insurance. The typical cost of credit life insurance is over $0.60 per $1,000 of coverage. For example, the rate for monthly outstanding balance credit life insurance in

[5] See pages 26-29 of CEJ report at http://www.cej-online.org/cej%20first%20dcc%20report%20no%20app.pdf

Wisconsin is $0.616 per $1,000 of outstanding balance.[6] This is at the low end of rates across the states. The MOB rate in Mississippi is $1.33 per $1,000.[7] In comparison, the tables below show the cost of term life insurance Table 1 shows the monthly costs for 10-year term life insurance policies with $50,000 or $100,000 of coverage throughout the term of the policy and issued at different ages. The table shows the monthly premium and cost per $1,000 of coverage per month. The monthly premiums were obtained from Insure.Com on March 5, 2009 for a woman and a man in Colorado. The prices presented are the lowest and second lowest offered. There are two sets of rates – one for a policy with a health examination and the other for a policy with no health examination but with health questions.

The table illustrates that term life rates vary significantly by issue age with much lower rates for younger consumers. The table shows that the cost per $1,000 of coverage is lower with greater amounts of coverage. In some instances, the monthly premium is less for a $100,000 policy than for a $50,000. This results from the fact that some insurers will not offer policies below a certain coverage amount. The tables show that term life is far less expensive for consumers than credit life insurance for all but the oldest and sickest consumers.

CPP products can also be a poor purchase decision for consumers because of purchasing insurance on very small loan amounts. The CPP stay in force even when loan amounts drop – below a few hundred dollars and below even ten dollars of loan amount. We are unaware of any independent financial advisor recommending consumers purchase CPP. Consumers are typically warned against purchasing credit insurance.[8]

Lenders are the primary beneficiaries of the sale of CPPs. First, the lender's loan is protected against events that impair the borrower's ability to repay the loan. With credit insurance in place, the lender will not incur any costs to force payment from the surviving spouse or relative of a deceased borrower or force payment from a borrower who has become disabled or unemployed. This is a significant benefit because the lender not only gets full payment on the loan, but does not have to incur any costs to force payment. Second, the lender gets substantial commission and other revenue from the insurance premium. Some of the commission is up front at the time of the loan and some of the commission is back end, based on the profitability of the credit insurance business. Commissions and other compensation are typically 40% or more of the premium. Third, the premium is typically financed, providing additional interest income to the lender.

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[6] See October 1, 2008 Bulletin from Wisconsin Insurance Commissioner announcing credit insurance rates at http://oci.wi.gov/bulletin/0908credit.htm.

[7] See http://www.mscode.com/free/statutes/83/053/0023.htm

[8] See, for example, ABC News, "Why Credit Life Insurance is a Bad Buy," at http://abcnews.go.com/Business/PersonalFinance/story?id=6256535. Consumer organizations, including the Consumer Federation of America, Consumers Union and the Center for Economic Justice, have consistently warned consumers against the purchase of credit insurance

Table 1: Cost of 10-Year Renewable Level Term Life Insurance

$50,000 Coverage for Female, Non-Smoker, 5'3", 130 pounds

	Monthly Premium				***Cost per $1,000 of Coverage per Month***			
Age	Exam Best	Exam 2nd	No Exam Best	No Exam 2nd	Exam Best	Exam 2nd	No Exam Best	No Exam 2nd
24	$8.53	$9.76	$7.92	$12.01	$0.17	$0.20	$0.16	$0.24
29	$8.53	$9.76	$8.53	$12.01	$0.17	$0.20	$0.17	$0.24
34	$8.62	$9.84	$9.32	$12.01	$0.17	$0.20	$0.19	$0.24
39	$9.41	$10.81	$11.33	$13.18	$0.19	$0.22	$0.23	$0.26
44	$10.72	$12.34	$13.87	$16.01	$0.21	$0.25	$0.28	$0.32
49	$12.64	$14.74	$18.59	$19.84	$0.25	$0.29	$0.37	$0.40
54	$15.66	$18.11	$23.01	$24.28	$0.31	$0.36	$0.46	$0.49
59	$18.64	$22.14	$26.36	$30.19	$0.37	$0.44	$0.53	$0.60
64	$23.76	$28.92	$32.49	$37.28	$0.48	$0.58	$0.65	$0.75

$100,000 Coverage for Female, Non-Smoker, 5'3", 130 pounds

	Monthly Premium				***Cost per $1,000 of Coverage per Month***			
Age	Exam Best	Exam 2nd	No Exam Best	No Exam 2nd	Exam Best	Exam 2nd	No Exam Best	No Exam 2nd
24	$6.96	$7.83	$9.71	$12.79	$0.07	$0.08	$0.10	$0.13
29	$6.96	$7.83	$10.94	$12.78	$0.07	$0.08	$0.11	$0.13
34	$6.96	$7.92	$12.51	$12.79	$0.07	$0.08	$0.13	$0.13
39	$7.92	$8.87	$14.53	$15.57	$0.08	$0.09	$0.15	$0.16
44	$10.35	$12.09	$19.40	$21.61	$0.10	$0.12	$0.19	$0.22
49	$13.05	$16.01	$27.49	$31.06	$0.13	$0.16	$0.27	$0.31
54	$17.75	$21.70	$34.63	$42.44	$0.18	$0.22	$0.35	$0.42
59	$25.23	$26.69	$41.41	$49.07	$0.25	$0.27	$0.41	$0.49
64	$32.53	$33.34	$52.81	$62.73	$0.33	$0.33	$0.53	$0.63

$50,000 Coverage for Male, Non-Smoker, 5'11", 175 pounds

	Monthly Premium				***Cost per $1,000 of Coverage per Month***			
Age	Exam Best	Exam 2nd	No Exam Best	No Exam 2nd	Exam Best	Exam 2nd	No Exam Best	No Exam 2nd
24	$9.23	$10.41	$9.06	$13.31	$0.18	$0.21	$0.18	$0.27
29	$9.23	$10.41	$9.71	$13.31	$0.18	$0.21	$0.19	$0.27
34	$9.32	$10.54	$10.50	$13.31	$0.19	$0.21	$0.21	$0.27
39	$10.19	$11.77	$13.21	$15.62	$0.20	$0.24	$0.26	$0.31
44	$11.81	$13.74	$17.06	$18.14	$0.24	$0.27	$0.34	$0.36
49	$14.57	$17.50	$23.84	$24.87	$0.29	$0.35	$0.48	$0.50
54	$18.38	$22.44	$29.32	$32.03	$0.37	$0.45	$0.59	$0.64
59	$24.85	$29.36	$40.76	$44.63	$0.50	$0.59	$0.82	$0.89
64	$30.06	$36.69	$57.29	$71.64	$0.60	$0.73	$1.15	$1.43

$100,000 Coverage for Male, Non-Smoker, 5'11", 175 pounds

	Monthly Premium				***Cost per $1,000 of Coverage per Month***			
Age	Exam Best	Exam 2nd	No Exam Best	No Exam 2nd	Exam Best	Exam 2nd	No Exam Best	No Exam 2nd
24	$6.96	$7.83	$11.99	$15.05	$0.07	$0.08	$0.12	$0.15
29	$6.96	$7.83	$13.30	$15.05	$0.07	$0.08	$0.13	$0.15
34	$6.96	$7.92	$14.88	$15.05	$0.07	$0.08	$0.15	$0.15
39	$7.92	$8.87	$19.14	$20.30	$0.08	$0.09	$0.19	$0.20
44	$10.35	$12.09	$23.14	$26.36	$0.10	$0.12	$0.23	$0.26
49	$13.05	$16.01	$34.28	$42.61	$0.13	$0.16	$0.34	$0.43
54	$17.75	$21.84	$47.42	$57.93	$0.18	$0.22	$0.47	$0.58
59	$25.23	$30.97	$69.60	$83.13	$0.25	$0.31	$0.70	$0.83
64	$40.46	$47.69	$101.44	$129.72	$0.40	$0.48	$1.01	$1.30

With CI, over 80% of the premium dollar goes to the lender as loan payments or compensation from the credit insurer.[9] With DCC/DSA, we estimate an even-greater share of fees paid by consumers go the lenders because the administrative costs for DCC/DSA are lower than those for CI.

<u>Given the large benefits realized by lenders form the sale of CPP at the expense of consumers, lender claims about the value of CPP to consumers must be viewed skeptically.</u>

Existing State and Federal Regulatory Efforts Fail to Protect Consumers

As shown above, state insurance regulators have, for the most part, failed to ensure that credit insurance rates are reasonable and that consumers receive fair value. With DCC/DSA, there is no oversight of rates or benefits and consumers receive even less value – as measured by the benefit ratio – than with CI.

State insurance regulators have also failed to take action against unfair sales and abusive credit insurance products. In 2000, the United States Departments of Housing and Urban Development and Treasury issued a report on predatory lending practices in 2000 which stated, "HUD and Treasury believe that the charging and financing of single premiums is unfair, abusive, and deceptive. . . .."[10] State insurance regulators did nothing to stop the abuses in financed single premium CI before or after the HUD/Treasury Report.

Perhaps most relevant, state and federal regulators have taken no meaningful action regarding credit insurance disclosures. There has been no analysis by state insurance regulators or banking regulators to determine if disclosures – even the most consumer-friendly disclosures – can empower consumers and level the market power of consumers versus lenders in CPP markets.

The available evidence indicates strongly that existing disclosures have failed to protect consumers because consumers continue to receive poor value from credit insurance. The most glaring examples are the rapidly declining loss ratios for credit disability, the perennially low loss ratios for credit unemployment and the ZERO loss ratio for credit family leave.

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[9] See testimony in Civil Action No. 08-cv-1071-REB-KMT, Bellco Credit Union v USA, US District Court of Colorado and Case No. 08-C-0057, Community First Credit Union v USA, US District Court, Eastern District of Wisconsin.

[10] Available at http://www.huduser.org/publications/pdf/treasrpt.pdf, page 7.

Lender Assertions Are Unsupported

Lenders have already made a number of arguments in opposition to the new disclosures. The arguments are without empirical support and illogical.

1. Lenders assert that the disclosures will harm lenders by reducing product sales. The proposed disclosures better empower consumers to make informed choices. The goal is to protect consumers in a non-competitive market and not to protect lenders' sales of the product. If the lender is selling a product useful to the consumer at a fair price, then the proposed disclosures should not dampen sales. However, if current sales levels are supported by inadequately informed and protected consumers, then the proposed disclosures may result in lower sales.

2. Lenders assert that the disclosures would discourage consumers from purchasing the products and put their customers' financial future at risk. This is incorrect. First, the disclosures better inform consumers and better empower the consumers to make a reasoned decision about the purchase of a financial security tool. Second, the high price and low value of these products add significant costs to loans and, thereby, put consumers' financial future at risk. Third, the disclosures will prompt consumers to better consider the available options for insurance instead of simply purchasing the only product sold by the lender.

3. Lenders argue that the sale of small-amount CPP at point of loan sale is a convenience for the consumer and consumers are willing to pay for this convenience – just as consumers pay more for small quantities of milk at a convenience store than they would for a gallon of milk at the supermarket. The analogy is completely misplaced. Financial advisors will counsel consumers to consider a comprehensive approach to insurance to better protect the consumer and her family. It makes no more sense to purchase several small amounts of insurance tied to a specific loan than it does to purchase several health insurance products tied to individual diseases.

4. Lenders assert the disclosures portray the products in a negative light. This is incorrect. The disclosures provide a stronger alert than current disclosures to more thoughtfully consider the purchase of the product and highlight issues found – through focus group testing – to be of concern to consumers. The fact that more informed consumers may purchase fewer CPPs does not mean the products have been portrayed in a negative light, but, rather, that consumers have made more informed choices.

5. Lenders assert the disclosures are misleading and inaccurate. Lenders have provided no substantive explanation or evidence to support this claim. In particular, two features of the disclosure are critically important. First, the bold notice for the consumer to STOP at the top of the disclosure in necessary and reasonable. It is vitally important for the consumer to make a thoughtful purchase of the insurance product and avoid an impulse purchase of CPP or being pressured by the lender to purchase the product. Second, the bold notice regarding benefit eligibility – You may not receive any benefit even if you buy this product – is necessary and reasonable. There have been instances of post-claims underwriting in credit insurance – the product was sold to consumers ineligible for benefits and premium was collected until (and if) a claim was filed – at which point, the credit insurer denied the claim and refunded the premium.[11] This bold disclosure is necessary to prompt the consumer to verify that she is, in fact, eligible for benefits.

In conclusion, we commend the Board for recognizing the problem with the sale of CPP. The new CPP disclosures are a needed improvement, but disclosures are insufficient to address the market failures of CPP markets.

Sincerely,

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[11] See, for example, 10th Circuit Court of Appeals opinion, Vining v Enterprise Financial Group, 1998

Credit Life, Nation-wide Total

Year	*Gross WP ($ Million)*	*Inc / Earn Loss Ratio*
1999	3,447	41.5%
2000	3,244	40.8%
2001	2,997	40.9%
2002	2,412	41.4%
2003	1,896	42.9%
2004	1,766	43.1%
2005	1,726	41.3%
2006	1,690	43.1%
2007	1,638	42.8%
2008	1,463	44.0%
2004-08	8,283	42.8%

Credit Life, Selected States, 2004-08

State	*Gross WP ($ Million)*	*Inc / Earn Loss Ratio*
LA	327	25.1%
PR	364	28.8%
NV	72	28.9%
SD	43	30.6%
NE	72	33.3%
TX	869	38.0%
FL	554	43.4%
NC	351	47.0%
PA	343	53.0%
OR	89	55.3%
NY	237	56.5%
VA	217	57.0%
ME	34	58.0%
VT	18	61.7%

Compiled by the Center for Economic Justice, October 2009
Data Source: NAIC Credit Insurance Experience Exhibit. NAIC is not responsible for calculations

Selected Writers of Credit Life, 2004-2008

	Gross WP ($ Million)	*Inc / Earn Loss Ratio*
Nation-wide	8,283	42.8%
Cuna Mutual	1,164	55.6%
American Health & Life (Citigroup)	837	51.9%
American Bankers Life Assurance (Assurant)	728	44.7%
Life of the South	444	29.7%
Central States H & L	383	39.2%
Protective Life	354	32.6%
Carribean American (Assurant)	317	26.2%
American National	301	36.2%
Life Investors (Aegon)	278	34.2%
Resource Life	176	27.0%
Service Life	170	23.2%

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Data Source: NAIC Credit Insurance Experience Exhibit. NAIC is not responsible for calculations

Credit Disability, Nation-wide Total

Year	*Gross WP ($ Million)*	*Inc / Earn Loss Ratio*
1999	3,220	44.2%
2000	3,210	46.4%
2001	3,062	50.0%
2002	2,640	49.3%
2003	2,115	47.2%
2004	2,045	46.9%
2005	1,943	40.4%
2006	1,868	39.4%
2007	1,829	36.8%
2008	1,629	38.3%
2004-08	9,320	40.6%

Credit Disability, Selected States, 2004-08

State	*Gross WP ($ Million)*	*Inc / Earn Loss Ratio*
NV	59	16.3%
AK	26	24.1%
SD	51	27.2%
DC	17	28.1%
GA	446	28.7%
IL	402	33.1%
TX	990	36.3%
NC	447	46.0%
NY	332	52.5%
VT	29	55.2%
PA	421	58.9%
PA	421	58.9%
WV	62	65.2%
ME	54	65.8%

Compiled by the Center for Economic Justice, October 2009
Data Source: NAIC Credit Insurance Experience Exhibit. NAIC is not responsible for calculations

Selected Writers of Credit Disability, 2004-2008

	Gross WP ($ Million)	*Inc / Earn Loss Ratio*
Nation-wide	9,320	40.6%
Cuna Mutual	2,030	46.6%
American Health & Life (Citigroup)	1,012	53.9%
American Bankers Life Assurance (Assurant)	578	29.3%
Household Life (Household)	484	44.9%
Protective Life	290	36.3%
Central States L & H	271	36.3%
American Bankers (Assurant)	193	22.1%
Resource Life	182	33.2%
Life of the South	165	23.4%
Union Security (Assurant)	145	28.0%
Central States Indemnity	108	22.0%
Service Life	102	25.0%

Compiled by the Center for Economic Justice, October 2009
Data Source: NAIC Credit Insurance Experience Exhibit. NAIC is not responsible for calculations

Credit IUI, Nation-wide Total

(Involuntary Unemployment)

Year	*Gross WP ($ Million)*	*Inc / Earn Loss Ratio*
1999	1,342	7.6%
2000	1,350	6.0%
2001	1,295	8.8%
2002	1,093	13.7%
2003	811	13.5%
2004	659	9.6%
2005	599	10.4%
2006	534	8.1%
2007	508	14.2%
2008	489	13.1%
2004-08	2,788	10.9%

Credit IUI, Selected States, 2004-08

State	*Gross WP ($ Million)*	*Inc / Earn Loss Ratio*
VT	1	1.0%
AR	18	2.1%
UT	22	2.2%
DC	6	2.2%
HI	24	2.5%
CA	333	6.0%
FL	150	7.8%
OH	134	8.3%
NC	180	14.8%
TX	205	17.9%
MN	23	26.7%
PA	85	29.7%
CO	30	30.8%
NY	40	40.6%
VA	33	43.8%

Compiled by the Center for Economic Justice, October 2009
Data Source: NAIC Credit Insurance Experience Exhibit. NAIC is not responsible for calculations

Selected Writers of Credit IUI, 2004-2008

	Gross WP ($ Million)	*Inc / Earn Loss Ratio*
Nation-wide	2,788	10.9%
American Bankers (Assurant)	675	11.6%
Triton (Citigroup)	514	24.7%
American Security (Assurant)	458	4.7%
Central States Indemnity	229	5.2%
Wesco IC	202	11.0%
Yosemite IC (AIG)	165	15.8%
Balboa (Countrywide/Citigroup)	62	3.9%
Stonebridge Casualty (Aegon)	58	7.3%

Compiled by the Center for Economic Justice, October 2009
Data Source: NAIC Credit Insurance Experience Exhibit. NAIC is not responsible for calculations

Total Credit Life, Disability and IUI Experience By State, 2004-08

State	*Gross WP ($ Million)*	*Inc / Earn Loss Ratio*	*State*	*Gross WP ($ Million)*	*Inc / Earn Loss Ratio*
AK	51	27.5%	MT	82	34.8%
AL	379	39.5%	NC	978	42.1%
AR	190	34.4%	ND	75	35.3%
AZ	209	36.1%	NE	181	30.4%
CA	906	30.2%	NH	97	35.0%
CO	208	33.2%	NJ	318	36.2%
CT	134	31.0%	NM	166	42.0%
DC	29	27.0%	NV	151	19.7%
DE	77	30.1%	NY	608	53.3%
FL	1,089	34.3%	OH	726	41.7%
GA	845	34.2%	OK	298	34.7%
HI	109	25.7%	OR	234	43.1%
IA	330	34.9%	PA	849	54.4%
ID	107	31.8%	PR	619	29.4%
IL	768	32.6%	RI	41	37.7%
IN	482	40.9%	SC	549	38.7%
KS	245	30.1%	SD	101	26.7%
KY	438	33.7%	TN	675	38.7%
LA	628	27.7%	TX	2,064	35.5%
MA	200	34.1%	UT	147	28.6%
MD	246	44.8%	VA	546	50.9%
ME	95	60.1%	VT	48	55.9%
MI	712	42.6%	WA	293	39.4%
MN	292	36.9%	WI	503	42.6%
MO	485	39.3%	WV	165	43.9%
MS	329	33.4%	WY	64	35.9%
			Nation-wide	20,391	37.7%

Compiled by the Center for Economic Justice, October 2009
Data Source: NAIC Credit Insurance Experience Exhibit. NAIC is not responsible for calculations

Credit Family Leave, 2004-08 Nation-wide Experience

Year	*Earned Premium*	*Claims Paid*	*Loss Ratio*
2004	$50,396,018	$82,163	0.2%
2005	$39,851,001	$93,388	0.2%
2006	$29,179,076	$63,975	0.2%
2007	$25,486,677	$55,849	0.2%
2008	$22,508,468	$52,978	0.2%
2004-08	$144,912,772	$295,375	0.2%

Compiled by the Center for Economic Justice, October 2009
Data Source: NAIC Credit Insurance Experience Exhibit. NAIC is not responsible for calculations