Dear Ms. Mead:

We write to comment on the March 6 draft of the Life Insurance and Annuities Suitability Model Regulation.

- We strongly endorse the comments of the National Association of Insurance and Financial Advisors and recommend that the suitability model cannot achieve its desired results unless insurance companies share responsibilities for suitable recommendations with producers of the companies' insurance products.

- Some forms of credit insurance should be subject to the requirements of the suitability model. We recommend the following replace the current draft's section 4 H:

  Credit life insurance except for single premium credit life.

We continue to recommend at least some credit life insurance products be subject to suitability requirements.

Sellers of credit life are insurance producers as defined in the draft model.

"Insurance producer" means a person required to be licensed under the laws of this state to sell, solicit or negotiate insurance.

Sellers of credit life insurance make recommendations according to at least two of the three options for a definition of recommendation.

Option 1: [Recommendation] means specific personal advice directed by an insurance producer or insurer to an individual consumer that is based upon the collection of relevant information and is intended to lead that consumer to engage in an insurance transaction in accordance with that advice.

Option 2: [Recommendation] occurs when an insurance producer or insurer does all of the following:

(1) Collects relevant information from a consumer;

(2) Advises a consumer to purchase a specific insurance policy or contract;

(3) Advises of the specific amounts and benefits to be applied for; and

(4) Assists the consumer in purchasing the insurance policy or contract.

As indicated in our February 12, 2001 letter, single premium credit life insurance has been sold to consumers for whom the product was not suitable and such sale caused the consumer harm. We believe it is necessary and reasonable for insurance producers to make suitable recommendations to consumers regarding the purchase of single premium credit life insurance.

The credit insurance industry has offered to several reasons why it believes credit life insurance should be exempt from the suitability recommendations. We explained why some of those arguments were incorrect in our February 13, 20001 and our comments today focus on arguments made after that date.

1. Credit insurance is always a suitable product for loan repayment. (CCIA, 2/23/01)

This argument confuses suitability for a particular task with suitability for a particular consumer. The fact that a product designed for a specific purpose is suitable for that purpose does not mean that the product is suitable for all consumers. An annuity is always suitable for providing an income stream in the future, but that does not mean that an annuity is suitable for all consumers.

2. Credit insurance is a group product and the creditor is required to offer the product to all eligible debtors. (CUNA Mutual, 3/20/01)

The key characteristic of credit insurance is that the lender selects the one product to be offered to the consumer and the lender has a major financial interest in the sale of the product. It is unreasonable to conclude that because the lender has selected a group product that this product is suitable for all consumers who obtain loans from that lender.

3. The duty of the loan officer selling credit life insurance is to make disclosures required by law and regulation and it is too much to ask the loan officer to make suitability recommendations. (CCIA, 2/23/01)

4. Credit insurance is offered by individuals who are not licensed insurance agents or who hold limited credit insurance licenses. (CUNA Mutual, 3/20/01) [CCIA first paragraph]

5. Credit insurance is highly regulated, including disclosures. (CUNA Mutual, 3/20/01)

6. The home equity examples are not representative of industry practice.

First, the are absolute representative of significant industry practice

Second, given Mr. Burfeind's examples, we have a product sold that will not pay off the loan if the consumer does not repay or refinance in five years or less. Thus, the product is no longer universally suitable for repayment of theloan.

Finally, we want to cite a section from a letter from CitiFinancial:

Two reasons – first, to indicate the need for suitability based on the CitiFinancial description of the product.

Second, CitiFinancial wants to offer a choice – MOB or SP, this is clearly a benefit to consumers. Yet, under the current proposal, CitiFinancial would not be exempt from suitability, while a lender who only offered the SP product would be. This is clearly wrong.

November 7, 2000 letter from CitiFinancial to the New York State Banking Department, the Comptroller of the Currency and the Federal Deposit Insurance Corporation regarding real-estate secured consumer financial lending initiatives in connection with Citigroup's acquisition of Associates First Associates.

Much criticism has been leveled at various products, or product features, in the consumer finance industry. Public examples of misconduct, which involve individual consequences to which no reasonable person could fail to be sympathetic, *involve bad sales practices and product design features which sometimes enable bad sales practices to occur. Therefore, it is critical to look at both sales practices and product design to ensure the appropriate conduct of business.* The following discussion of specific product issues must be read in light of CitiFinancial's strong history and culture of compliance and the sales practices initiatives outlined above.

Single Premium Credit Insurance

Perhaps no other insurance product today involves so many criticisms as does single premium credit insurance. Critics complain that the product is unnecessary, adds to the amount financed and puts the borrower in jeopardy of losing equity in the borrower's home. In addition, the term of the loan can exceed the term of the insurance. On the other hand, this product is approved by the insurance departments in nearly all states, is sanctioned by state credit laws and has long been offered by the consumer finance industry as well as banks, credit unions, thrifts, and retailers.

Like many other companies in this industry, CitiFinancial has long offered single premium credit insurance. Single premium credit insurance can be a valuable product when sold to customers with the right needs, using clear and conspicuous disclosures and obtaining informed consent. Prepaid single premium credit insurance for persons who may not be able in a particular month to continue coverage under a monthly premium plan can ensure that person wold not lose his or her home in the event of the death, disability, or unemployment of the insured or his or her spouse. At the same time, insurance policies can be misunderstood and sold inappropriately. CitiFinancial will continue to ensure that borrowers understand the choices they have the benefits and costs of various options. In addition, we believe that the level of discussion has evolved to the point that it is proper for CitiFinancial to <u>change</u> its current credit insurance product features.

<u>Full Choice</u>

When originating a real estate-secured loan, CitiFinancial branch offices historically have offered customers the choice of the loan without credit insurance or taking it with insurance paid in a single premium at the time of closing. Going forward, whenever CitiFinancial branch offices offer single premium credit insurance, customer who choice credit insurance will be offered the additional choice of monthly premium credit insurance. Thus, customers will be able to choose no insurance, monthly premium insurance or single premium insurance.