PREPARED STATEMENT OF THE CONSUMER CREDIT INSURANCE ASSOCIATION

PRESENTED TO
MASSACHUSETTS DIVISION OF BANKS
SEPTEMBER 19,2000

REGARDING
PROPOSED AMENDMENTS TO 209 CMR 32.32
HIGH COST MORTGAGE LOAN PROVISIONS

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The Consumer Credit Insurance Association (CCIA) is a national trade association of insurance companies engaged in the business of insuring consumer credit transactions. Our members account for in excess of 80% of the national premium volume for consumer credit insurance. Since its' incorporation in 1951, CCIA has been dedicated to preserving and enhancing the availability, utility and integrity or insurance and insurance-related products delivered through financial institutions or in connection with financial transactions.

An increasing number of complaints regarding abusive practices engaged in by sub-prime lenders prompted the proposed regulation amendments. A practice identified as "packing" has been connected to consumer credit insurance.

While insurance can be packed, the borrower's informed election of optional consumer credit insurance is not packing. It's important to differentiate the good insurance product from a bad lending practice. Section 209 CMR 32.32(6)(c) recognizes this distinction by defining "packing" in relevant part as "...the practice of selling ...insurance products <u>or unrelated goods or services</u> ...<u>without the informed consent</u> of the borrower...." [Emphasis added] Informed consent is the key to a prudent decision. Both Federal and Massachusetts state law and regulation provide for informed consent.

The Federal Truth-In-Lending Act, implemented by the Federal Reserve Board Regulation Z, promotes the informed use of consumer credit by requiring disclosures about the credit transaction terms and costs. Regulation Z includes model forms and disclosures. The Model Credit Insurance Disclosure Notice states that "credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you signed and agreed to pay the additional cost." It's clear that the purchase of credit insurance is optional; there is an additional charge for the coverage which is separately stated for each coverage option; and, that the borrower must indicate the election of coverage, if any, by written signature. Examination of actual loan documents will reveal credit insurance disclosures substantially identical in form and content. Further, these disclosures are uniformly provided on the first page of loan documents and generally highlighted by bold border or distinctive type size or face for prominence.

Numerous studies have concluded that consumers understand that the purchase of credit insurance is optional.

The Federal Reserve Board has twice examined credit insurance issues. In the first, the authors concluded that "Explicit tying between the granting of credit and the sale of related insurance is practically non-existent and implicit pressures brought by lenders on the borrowers are neither very strong nor widespread in the industry." [Eisenbeis, Robert

A., and Paul R. Scheitzer. *Tie-ins Between the Granting of Credit and Sales of Insurance by Bank Holding Companies and Other Lenders.* Staff Study 101. Board of Governors of the Federal Reserve System. 1979.] In the second, the authors concluded "Widespread abuses alleged by industry critics are not perceived by most borrowers as important concerns." [Cyrnak, Anthony W., and Glenn B. Canner. *Consumer Experiences with Credit Insurance: Some New Evidence.* Federal Reserve Board. 1987.] These two studies also confirmed results of earlier consumer studies, the most exhaustive of which was conducted by the College of Business Administration of Ohio University and found that 90.10% of consumers with credit insurance knew they "were obtaining credit life insurance protection" and 91.97% "understood there was a charge for credit life insurance in addition to the interest charge." [Charles L. Hubbard, ed. *Consumer Credit Life and Disability Insurance.* College of Business Administration, Ohio University, Athens, Ohio, 1973.]

The most recent credit insurance consumer study was conducted by the Credit Research Center (CRC), then located at Purdue University but subsequently moved to Georgetown University. The CRC undertook the project to obtain a profile of who is currently being served by the credit insurance market, as well as reasons borrowers purchase and their experience with the offer at the point of sale. Among their findings was that "purchase patterns for credit insurance are readily explainable without reliance on seller coercion as a factor" and that "marketing/coercion alone accounts for a maximum of 3.4% of credit life insurance sales." But most significant to today's discussion, 81% of the respondents cited "ensuring that debts would not be a financial burden to others" as their reason for buying credit life insurance. [Barron, John M., Ph.D., and Michael E. Staten, Ph.D., *Monograph 30 Credit Insurance: Rhetoric and Reality.* Krannert Graduate School of Management: Purdue University. 1994]

Credit insurance consumers generally have low to moderate incomes and, accordingly, higher levels of financial insecurity compared to those with higher incomes or greater wealth. Ideally, the purchase of insurance is a cost effective way to address financial insecurity. Yet, too many consumers have little or no insurance.

A recent life insurance industry study concluded that 25% of US households have NO life insurance. [*Americans' Financial Insecurity,* Prepared for The Life and Health Insurance Foundation for Education (LIFE) by Roper Starch, October 1998.] Additionally, 75% agree they need more life insurance and 96% agree that providing for dependents is the most important reason. But, the study notes, "life insurance isn't on the top of people's list of financial concerns. The most important is paying current bills." Meeting the monthly mortgage payment is listed as the first critical day-to-day challenge.

Making that monthly mortgage payment is crucial to providing for dependents. Both lender and borrower are counting on a stream of income to make this payment. The biggest risk of interruption to income is unemployment, disability, or death. For those consumers who have no insurance, or wish to supplement existing insurance, credit insurance is affordable, available, and convenient

Credit insurance is low-cost protection. Generally, the amount of insurance purchased is lower than the minimum purchase requirements of individual policies, which, in turn usually means a lower total premium charge. Also, group rated credit insurance, i.e., one rate for all ages, becomes increasingly the least expensive option as borrowers age. Further, because the premium charge is included in the installment loan payment, the cost to the borrower is just a few dollars a month. In contrast, the annual or periodic premium payment for individual insurance is an impossible burden for many borrowers and results in a lapse of coverage. Moreover, individual disability and unemployment policies are scarce, if available at all.

Also, it is important to note that unlike rates for products like ordinary term life insurance, single premium credit insurance rates will not rise as an individual ages. Generally, there is one rate for everyone, regardless of age or medical condition. Indeed, while credit life insurance may be subject to some evidence of insurability, it is offered without the more extensive underwriting criteria typical of term or other forms or life insurance.

These factors make credit insurance especially attractive to middle aged and older consumers, who constitute the majority of home equity borrowers. Typically, the majority of such borrowers are above age 45 – an age when uniform rates with little or no underwriting requirements are a clear benefit to those seeking life or disability insurance.

It's important for any regulation, such as the proposal before us, to preserve the opportunity for a borrower to purchase optional credit insurance. In this regard we convey our concern with Section 209 CMR 32.32(6)(j) prohibiting the sale of single premium credit insurance in connection with a high cost home loan. For reasons stated above we also register our objection to characterizing this insurance as expensive and economically questionable.

Credit insurance in conjunction with home equity loans is typically a financed single premium product. Since most home equity loans are repaid or refinanced within five years – a survey of leading lenders in one state found 90 percent of such loans repaid or refinanced within 48 months – credit insurance on home loans is usually offered for a truncated period. This means the initial term of insurance is for a shorter period than the full term of the loan, which keeps the insurance cost affordable. When a consumer pays the loan before the end of the period of insurance, the unearned premium is refunded.

There is consumer value in a financed single premium. While other premium payment modes might be available, financing the premium over the full term of the loan makes the coverage affordable to many consumers. The premium charge for the coverage is about the same regardless of how the premium is paid. Financing the premium over the term of the loan most often provides the borrower with the lowest monthly out of pocket cost for insurance.

Another consumer value of financed single premium is continuity of coverage

(persistency in insurance speak). Having pre-paid the premium for the full term of coverage, the coverage remains in force even if the loan payments become erratic or delinquent. Consider the alternative of a Monthly Outstanding Balance payment mode. With MOB the borrower is essentially purchasing 30 days of coverage at a time. Since premiums are collected with each loan payment and continuation of coverage depends on premium payments being made in a timely manner, MOB coverage will often lapse when or soon after loan payments become delinquent. Given that death and disability are often preceded or accompanied by budget busting medical bills, this is an important consideration for credit insurance consumers and public policy makers.

There is an inconsistency in the proposed amendments. While 209 CMR 32.32(6)(j) would prohibit single premium credit insurance, 209 CMR 32.32(6)(a) exempts voluntary credit insurance from the five percent limitation on financing points, fees or charges.

We share the Division of Banks interest in eliminating "packing" as a lending practice. We trust the Banking Department shares our interest in having optional credit insurance available to borrowers on real estate secured loans. Once you have informed consent as assured by 209 CMR 32.32(6)(c), you no longer have "packing" whether or not the premium is financed. Accordingly, we encourage you to delete 209 CMR 32.32(6)(j) prohibiting single premium credit insurance.

Single premium credit insurance is an affordable, fair consumer option to protect home loans. In no way is it a questionable lending practice indicating a loan was made under abusive circumstances. It is a means to protect home equity from the predators of time and nature, like accidents, ill health, or death.

Thank you.