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Testimony of Claudia H. Ormrod
Director, Government Relations - Household Insurance Group
On behalf of Household Life Insurance Company
Massachusetts Division of Banks Public Hearing
September 21, 2000

Re: Proposed Amendments to 209 CMR 32.32 "High Cost Mortgage Loan Provisions" and new regulation Unfair and Deceptive Practices in consumer Transactions

My name is Claudia Ormrod and I am here on behalf of Household Life Insurance Company, an admitted life and health insurance company in the Commonwealth of Massachusetts. Household Life provides credit life and disability insurance products through affiliated financial institutions and 31 HFC and Beneficial consumer finance branches in Massachusetts.

Household Life appreciates the opportunity to provide comments on the proposed amendments to the High Cost Mortgage Loan Provisions of the Commonwealth's Truth in Lending Act and the proposed new regulation, Unfair and Deceptive Practices in Consumer Transactions. We support the Division's effort to curb abusive practices in connection with home equity lending. However, we are concerned about the effect the proposed amendments and the new regulation may have on the ability of lower to moderate income consumers to elect and finance the purchase of single premium credit insurance products in conjunction with closed-end home mortgage loans. Specifically, our concerns with the proposed amendments and new Regulation are:

1. The limitation in proposed 209 CMR 32.32(6)(1)(a) which includes voluntarily elected credit insurance premiums and fire and miscellaneous property insurance premiums in the 5% points, fees and charges financing cap if the consumer's monthly income is less than the median income for their MSA and their debt ratio exceeds 50%.

2. The apparent conflict of proposed 209 CMR 32.32(6)(1)(a) and (c) which allow financing of single premium credit insurance products under certain circumstances with the provisions of 209 CMR 32.32 (6)(1)(j) which prohibits the financing of single premium credit insurance products (and debt cancellation and suspension products) as an unfair act or practice.

As a general observation, Household Life takes exception to the characterization in the proposed amendments that the financing of single premium credit insurance products is an unfair act or practice. For responsible insurers and lenders that currently comply with all applicable insurance and lending laws, <u>financing single premium credit insurance products is not and never has been considered an "abusive" lending practice</u>. We believe that the borrower should determine, after being fully informed of the cost, terms and benefits of coverage, whether or not electing to purchase and finance a credit insurance product is a necessary purchase for that borrower.

Credit insurance is not for everyone that takes out a home mortgage loan. But for many borrowers, it represents a good value and an alternative to purchasing additional ordinary life or disability income insurance policies. In our market segment, the need for additional life insurance coverage is well documented. The Life and Health Insurance Foundation for Education's recent 1998 survey, "America's Financial Insecurity", indicated that:

- 25% of American households have no form of life insurance coverage

- 50% of American households are under-insured with less than 2 to 3 times annual income in total life insurance coverage from all sources.

  Nearly 40% of single parent households have no life insurance at all

- 40% of American households with incomes below $35,000 (the national median income according to the survey) have no life insurance at all

- Of those American households with incomes below $35,000, 68% cite the cost of life insurance coverage as the primary reason for not purchasing more coverage

Our experience indicates that many home mortgage loan borrowers maintain only group life insurance coverage offered through their employer rather than individually owned life insurance policies. In many cases, that employer group life insurance is inadequate to cover both the balance on any first mortgage and a home equity loan should a death occur. Individual disability coverage is even less prevalent. The Department of Housing and Urban Development estimates that 46% of conventional mortgage foreclosures occur as a result of a disability.

Consequently, there is a real need for alternative insurance products, such as credit life and disability insurance, in the home mortgage loan market.

We believe it is especially important for any consumer who takes on a large, secured debt to have insurance to cover that debt. The ability to purchase single premium credit insurance can be a valuable and important financial management tool for a home mortgage loan borrower. Depending upon the loan amount and the borrower's age, insurance premiums paid on a monthly basis may be cost prohibitive and may make the monthly loan payment with insurance unaffordable. Single premium life or disability coverage, financed as part of the loan transaction, is generally more affordable, especially for higher loan amounts because the cost is spread over the term of the loan.

For all of the foregoing reasons we are concerned that the proposed amendments limiting the ability to finance single premium credit life or disability insurance may have the unintended consequence of harming the very borrowers the regulation seeks to protect (those with a lower income and a high debt ratio). According to the survey, lower to middle income borrowers are those most likely to need additional life or disability insurance coverage that "fits" within their monthly budget. Financed single premium credit insurance is generally more affordable on a monthly basis than a product with a premiums paid monthly. Unless their debt ratio is below 50%, lower-income borrowers will not have the ability to choose to finance a single premium insurance product as part of their loan. With the proceeds from their home mortgage loan that same borrower can go on an expensive vacation, finance a swimming pool, new car or home improvements, which may or may not be considered an "appropriate" use of the funds. But, under the proposed amendments, those same loan proceeds may not be used to purchase insurance coverage that would protect that borrower's home from foreclosure as a result of a death or disability.

Although credit insurance critics have characterized financing single premium products as an unfair and abusive lending practice, very few examples of actual abusive sales of credit insurance products have been documented. Consumers are not harmed by choosing to finance single premium credit insurance products in conjunction with home mortgage loans. To the contrary, borrowers who have had a claim, thank us regularly for paying their monthly mortgage payment during a disability or paying off the balance of their home mortgage loan when a death occurs.

Here are some general facts about financed single premium credit insurance:

- The purchase of credit insurance is a borrower's voluntary choice that must be evidenced by an affirmative written election of the coverage

Federal and Commonwealth laws require that the cost of any elected credit insurance coverage must be disclosure as part of the loan transaction.

- Most credit insurance policies provide a 15 to 30 day "free look" period, after the loan closing, during which a borrower may review the policy and cancel coverage for a full refund of premium

- If the loan is paid in full during the insurance term, the borrower receives a refund of unearned credit insurance premium.

Credit insurance policy forms must be approved by the Division of Insurance before use.

Credit insurance rates and form provisions are regulated by Commonwealth insurance laws.

It is clear that there are many federal and state laws and regulations already in place that control the sale and disclosure of credit insurance products. We respectfully suggest that existing laws and regulations be enforced to assure credit insurance products are sold and disclosed properly.

With respect to the proposed amendments and the new Regulation, we have the following recommendations:

1. That the proposed amendments to 209 CMR 32.32 (6)(1)(a) be revised to eliminate the inclusion of voluntarily elected credit insurance premiums from the financed points, fees or charges cap.

2. That the single premium financing prohibition in 209 CMR 32.32 (6)(1)(j) be deleted in its entirety as it is in conflict with the provisions of (1)(a) of this same section.

3. That same revisions suggested above be made to Section 40.07(1)(a) and (j) of new regulation, 209 CMR 40.00.

A final comment regarding the disclosure proposed to prevent "packing" of credit insurance products. While a predisclosure regarding the credit insurance purchase is proposed, we believe a more effective disclosure could utilize the 15 to 30-day "free look" provision of most credit insurance policies. We suggest something like a post-closing purchase confirmation that would include a disclosure of the cost of coverage, the fact that the premium was financed as part of the loan, a short description of benefits, the fact that coverage can be cancelled for a full refund during the free-look period and instructions on how to cancel. The purchase confirmation would need to be mailed to the borrower within 3 business days of the loan closing. Using a purchase confirmation rather than a predisclosure would allow a borrower to review the credit insurance purchase details at a location other than the lender's place of business, hopefully promoting a more relaxed setting within which to make a final decision regarding the insurance purchase.

Thank you for the opportunity to present Household Life Insurance Company's comments on the proposed amendments and the new regulation. I'll be happy to answer any questions you may have.

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