CONSUMER CREDIT INDUSTRY ASSOCIATION

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RE: RIN 2590-AA26, Proposed Enterprise Affordable Housing Goals

The Consumer Credit Industry Association (CCIA) comments on Subchapter E – Housing Goals and Mission, Subpart A, Section 1282.19(b) pertaining to defining the sale of single-premium credit life insurance as an unacceptable mortgage condition.

CCIA is a national trade association of insurance companies and other financial service providers selling or servicing consumer credit insurance, consumer credit related lines of insurance and other consumer products and services typically provided in connection with consumer credit transactions whether or not insurance. Our member insurance companies account for more than 80% of the national premium volume written for these lines of insurance. Since incorporation in 1951 as an Illinois Not-For-Profit corporation, CCIA has been dedicated to preserving and enhancing the availability, utility, and integrity of insurance and insurance related products delivered through financial institutions or in connection with financial transactions.

The Federal Housing Finance Agency (FHFA) is proposing to define a *Mortgage with unacceptable terms or conditions* to include … "(iv) the sale or financing of prepaid single premium credit life insurance products in connection with the origination of the mortgage."

CCIA recommends the following amendment:

- Delete "~~(iv) the sale or financing of prepaid single premium credit life insurance products in connection with the origination of the mortgage;~~"

Alternatively:

- Amend to read "(iv) the ~~sale or~~ financing of prepaid single premium credit life insurance products in connection with the origination of the mortgage; provided, that insurance premiums calculated and paid on a monthly basis shall not be considered financed by the lender."

In analyzing our proposed amendments, keep in mind that credit life insurance product premiums can be paid either as a single premium or as a monthly premium. Generally, this is a program choice made by the lender for all mortgage transactions, not a consumer option in connection with a mortgage from a specific lender. The total amount of the premium charge for a scheduled amount and term of coverage will be essentially the same for either premium payment mode.

The prepaid single premium could be paid in cash but is done so rarely, if ever. When electing the coverage the consumer elects to finance the premium charge along with other fees. So there is the "cost" of the finance charge attributable to the single premium payment. There is also a significant benefit to prepaid single premium life insurance – the coverage does not lapse if loan payments become delinquent. Death is often preceded by illness or trauma and related medical bills or loss of income resulting in delinquent mortgage loan payments. With prepaid single premium the scheduled coverage benefit remains in force even if loan payments become delinquent; with a monthly premium payment the expected coverage benefit can lapse (usually a short grace period) due to non-payment even though occurrence of the insured event is eminent.

Our preferred amendment – deleting single premium credit life insurance as an unacceptable term or condition – is predicated on a review of FHFA cited authority for the proposed amendments. Section 1128(b) of the Housing and Economic Recovery Act of 2008 confers neither express nor implied authority to prohibit consumer election of voluntary credit life insurance products and the option to finance the premium charge. Indeed, the Act directs FHFA to "maintain the sound financial condition of the enterprises" (GSE's Fannie Mae and Freddie Mac). Prepaid single premium credit life insurance helps secure the mortgage loan and in turn the sound financial condition of the GSE's.

Nevertheless, CCIA recognizes that residential real estate mortgage lenders are moving toward the offering of voluntary monthly premium pay credit life insurance products. Accordingly, the CCIA alternative amendment above clarifies the continued availability and viability of monthly premium payment credit life insurance products.

Continued availability and viability of credit life insurance products are important to consumers.

Periodic consumer studies and surveys repeatedly demonstrate that credit insurance consumers are aware of the credit insurance option, aware of their credit insurance election, aware of the cost, did not want to cancel, and would likely purchase the coverage in the future. Some of these studies were undertaken by the Federal Reserve Board. Indeed, the most recent Board survey (*Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Thomas A. Durkin, Division of Research and Statistics, Federal Reserve Bulletin, April 2002) validates consumer satisfaction. The survey addressed installment, junior mortgage, and mortgage lending. Concerning credit insurance, Mr. Durkin concluded, "With respect to credit insurance because the views of users and nonusers seem so divergent, it seems important that the views of users be given sufficient weight in considering public policies in this area. According to the views expressed by many users of credit insurance, eliminating this product by regulation could be disadvantageous to them."

Credit insurance continues to have its critics. Much of the criticism is directed at cost as compared to ordinary term life insurance either by premium rate or loss ratio. CCIA requested the attached actuarial analysis (*Term Insurance Versus Credit Life,* Christopher Hause, Actuarial Solutions, March 11, 2010) demonstrating that credit insurance is competitive by either measure. Credit insurance is one rate for all borrowers regardless of age or underwriting risk characteristics. In contrast, ordinary term life insurance is rated by age, health, family history of disease, and other factors. A young preferred risk (about 10% of the population) can purchase ordinary term life insurance at rates lower than credit life. However, as the age and adverse underwriting characteristics of the borrower increase, the premium rate for credit life becomes increasingly competitive, even cheap by comparison. Many, perhaps most, home equity borrowers are above the age of 45, an age when uniform credit insurance rates with few medical underwriting requirements are a clear benefit to those seeking life or disability insurance.

Statutory and regulatory consumer protection abounds for credit life insurance products.

The premium rates and policy forms are filed with and approved by the state departments of insurance. The insurance policy or certificate is delivered to the consumer at the time of the consumer credit transaction (or shortly thereafter) as evidence of coverage. Credit insurance can be cancelled. The purchase of credit insurance is optional. Existing law gives the borrower the right to cancel at any time and get a refund of unearned premium. Industry practice, required by law in many states, is to give a full refund within a "free look" period of 30 days.

Federal Reserve Board Regulation Z implementing the Truth in Lending Act requires disclosures that amplify state consumer protections. Regulation Z requires the purchase of credit insurance to be "voluntary" to be excluded from the finance charge. To qualify as voluntary, the lender must make written disclosure that the purchase is not a condition of the credit decision, that there is a separate charge for the insurance, the amount of that charge, and have the consumer written election of coverage.

Given the rising incidence of home foreclosures in this dour economic cycle, it's important to emphasize that credit insurance doesn't cause foreclosures. Particularly in the subprime mortgage market, many foreclosures have been the consequence of negligent and fraudulent loan underwriting. In these situations the loan was doomed to fail with

or without credit insurance. Other home loan foreclosures result from income disruptions caused by death, disability, and unemployment. Indeed, the consumer election of credit insurance certainly precluded some foreclosure actions.

Home ownership represents the largest investment most consumers will ever make. Yet, how do consumers protect themselves from foreclosure in the event of death, disability, or unemployment? Absent abundant savings, the answer is insurance. Credit insurance is one of the insurance options. Public policy should encourage the purchase of insurance to protect home equity, and facilitate that purchase by recognizing the need for many consumers to finance the premium charge.

Respectfully,

William Burfeind
Executive Vice President

Attachments: Hause – Term v Credit Life Rates
Hause- Term v Credit Life Loss Ratios

Term Life versus Credit Life Insurance
Which Rates are Lower?

Introduction

Many of the critics of credit life insurance believe that credit life purchasers would be well served by purchasing a "low cost" level term life insurance policy to cover their needs. In comparison, many times the typical comparison is to a non-smoking 35 year old in perfect health who can purchase 20 times the coverage for the same cost.

It is generally accepted that credit life serves a much broader range of health and age groups than the above example would suggest.

I set out to answer a seemingly simple question pitting term life against credit life insurance. Which one is able to provide coverage for the lower cost? Is term life really a "better buy?"

The Short Answer

The short answer is that because term insurance is generally purchased in larger quantities the cost per thousand dollars of coverage can be lower. For young insureds in good health the cost can be significantly lower. However, the concept of increased pricing efficiency with increased volume is not unique to credit insurance. My analysis shows that if term insurance were available at the low face amounts at which credit insurance is purchased, the premium cost for term life would actually be higher.

Also, term life insurance is rated by age, gender and health status and credit life insurance is generally a single rate. So, the numerical relationships vary, but all comparisons suggest that credit insurance is an efficient vehicle for providing small amounts of life insurance.

The Procedure

To perform the comparison, I compiled the ten year level term rates of fifteen large writers of term insurance and took an average of them by age and underwriting class. Ten year level term was chosen because it is the shortest term for which rates are available from a large number of companies. The premium rates were obtained from a commercial website maintained for the purpose of comparing term insurance quotes.

Since none of the term insurers offer individual level term in an amount as small as $8,000 (the average credit life contract issued in 2008), I extrapolated the rates for a $50,000 policy down to what the cost would be for an $8,000 ten year level term life policy. I accomplished this by separating the premium into the policy fee (or an average policy fee) and the rate per $1,000. Taking an average across ages and underwriting classes, I calculated a cost per $100 per year, which is the basis for credit life rates.

The Graphical Results

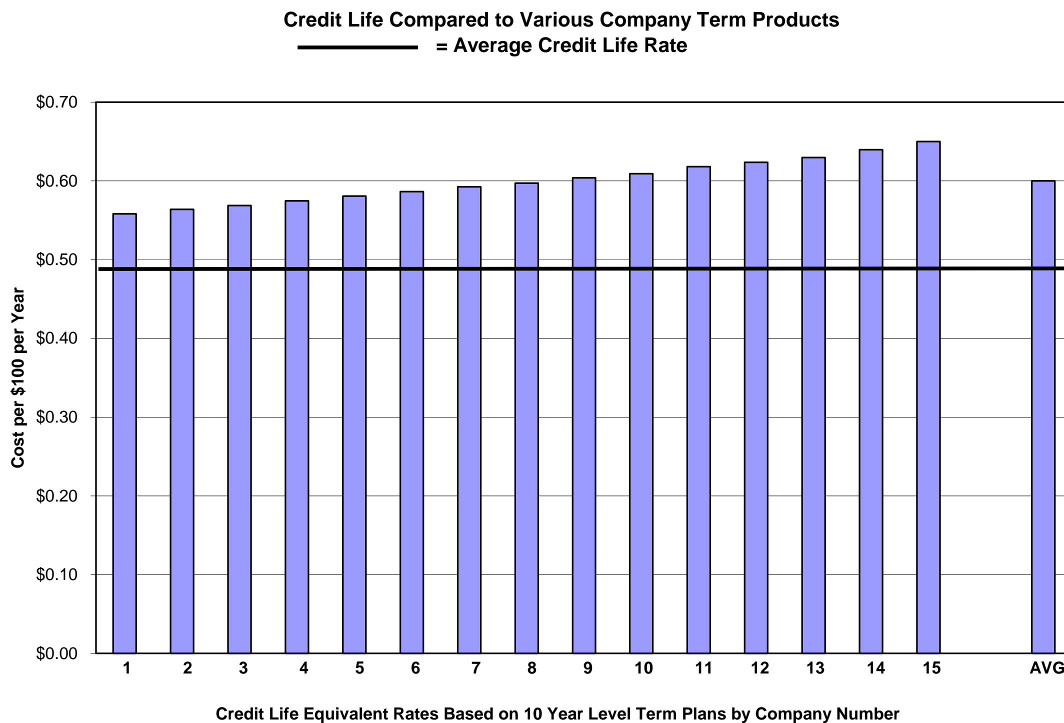
The results of our work are on the attached graphs. The cost of the term policies from the various carriers varies from a low of about $.56 to a high of about $.65. Based on a weighted average, the overall cost of the term plan was about $.11 higher than for credit life insurance. This first graph shows that credit life is as efficient as other term life insurance products at providing coverage.

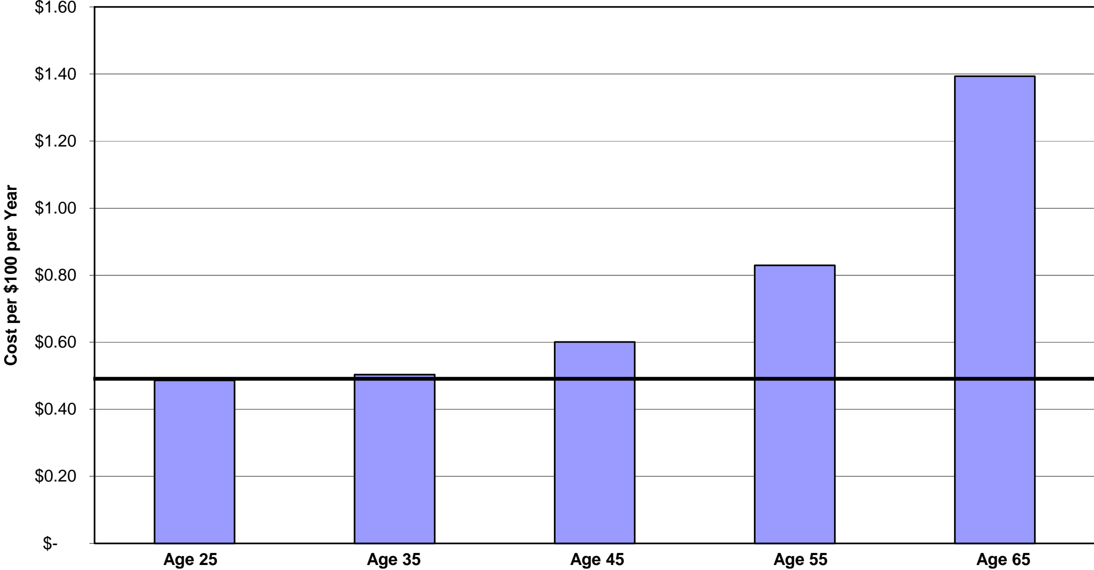
A second graph shows the average credit life rate compared to an average rate from the same fifteen companies that varies by issue age. With the increasing average age of purchasers and aging of the baby boomers, credit life will continue to compare favorably against term life for providing coverage at a reasonable cost.

Christopher H. Hause, FSA
March 11, 2010

About the Author

Christopher Hause is the President of Hause Actuarial Solutions, Inc. in Overland Park, Kansas. Hause Actuarial is a consulting actuarial firm providing a wide range of consulting services to the insurance industry including actuarial software programs that assist insurance actuaries in evaluating, pricing and modeling life, health and annuity products. Hause recently spearheaded data collection for several nationwide studies and authored or co-authored papers on the results. Other assignments include reserve and financial statement work, product development and software development for the insurance and banking industries. He has assisted in shaping insurance regulations and laws through written and oral testimony.





Credit Life Equivalent Rates Based on 10 Year Level Term Plans
Average Rates by Issue Age

Term Life versus Credit Life Insurance
Which Returns More to the Policyholder?

Introduction

It has long been a criticism of Credit Life Insurance that the loss ratios are “too low,” and that the measure of a policy’s value to the purchaser can be measured in terms of the return to policyholders, i.e. a “sufficient” loss ratio.

Many of these same critics believe that credit life purchasers would be well served by purchasing a low cost level term life insurance policy to cover their needs.

This evaluation compares credit life to term life insurance. It investigates the question, which one is the “fairer” product in terms of return to the policyholder, as measured by loss ratio?

The Short Answer

The short answer is that credit insurance, when measured against term life insurance in the area of loss ratio, generally provides a comparable return to the policyholder. For smaller face amount policies and lower ages, credit insurance can provide a better return to the policyholder.

The Procedure

I compiled the ten year level term rates of several large writers of term insurance and selected the lowest rate by gender and age using three underwriting classes (preferred nonsmoker, standard nonsmoker and standard smoker). Ten year level term was chosen because it is the shortest term where rates available from a large number of companies.

I then developed reasonable mortality assumptions for each class and age using the 2008 Valuation Basic Table, which is the most recent table of insured life mortality published by the Society of Actuaries. I then calculated a “loss ratio” based on five years of surviving policies, without discounting for interest. This is the measure of loss ratio which is most comparable to the way that credit life loss ratios are calculated.

I calculated the term loss ratios using ten year level term rates at two different term face amounts - $50,000 and $250,000. Both are obviously higher than the $8,000 average size for credit life, but for those who can plan ahead and purchase term insurance for future contingent events, it is instructive to show the variation in comparisons at different term sizes.

The Graphical Results

The results are on the attached graphs. The average term loss ratio assuming a $50,000 face amount is 28.5%, versus 43% for credit life. The average term loss ratio assuming a $250,000 face amount is 47.4%, versus 43% for credit life.

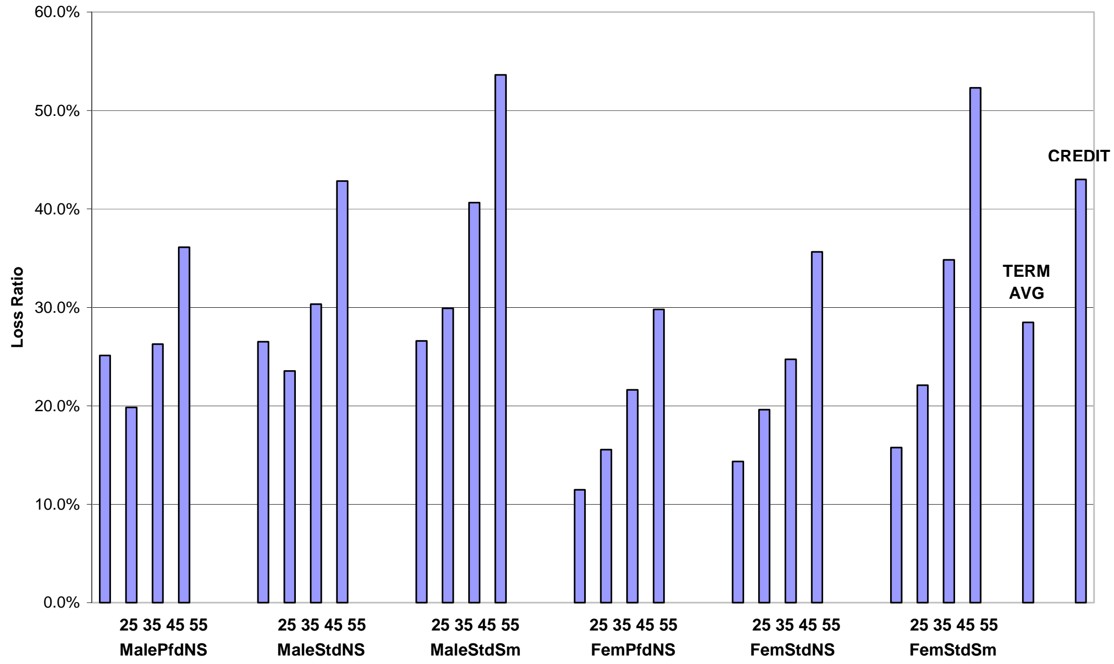
The argument as to what is the "appropriate" loss ratio for credit life will likely go on, but the supposed superiority of term life in providing value to the policyholder is not consistent with the facts.

Christopher H. Hause, FSA

March 11, 2010

About the Author

Christopher Hause is the President of Hause Actuarial Solutions, Inc. in Overland Park, Kansas. Hause Actuarial is a consulting actuarial firm providing a wide range of consulting services to the insurance industry including actuarial software programs that assist insurance actuaries in evaluating, pricing and modeling life, health and annuity products. Hause recently spearheaded data collection for several nationwide studies and authored or co-authored papers on the results. Other assignments include reserve and financial statement work, product development and software development for the insurance and banking industries. He has assisted in shaping insurance regulations and laws through written and oral testimony.


Term Life vs Avg Credit Life Loss Ratios - $50k
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Loss Ratio
CREDIT
TERM
AVG
25 35 45 55
MalePfdNS
25 35 45 55
MaleStdNS
25 35 45 55
MaleStdSm
25 35 45 55
FemPfdNS
25 35 45 55
FemStdNS
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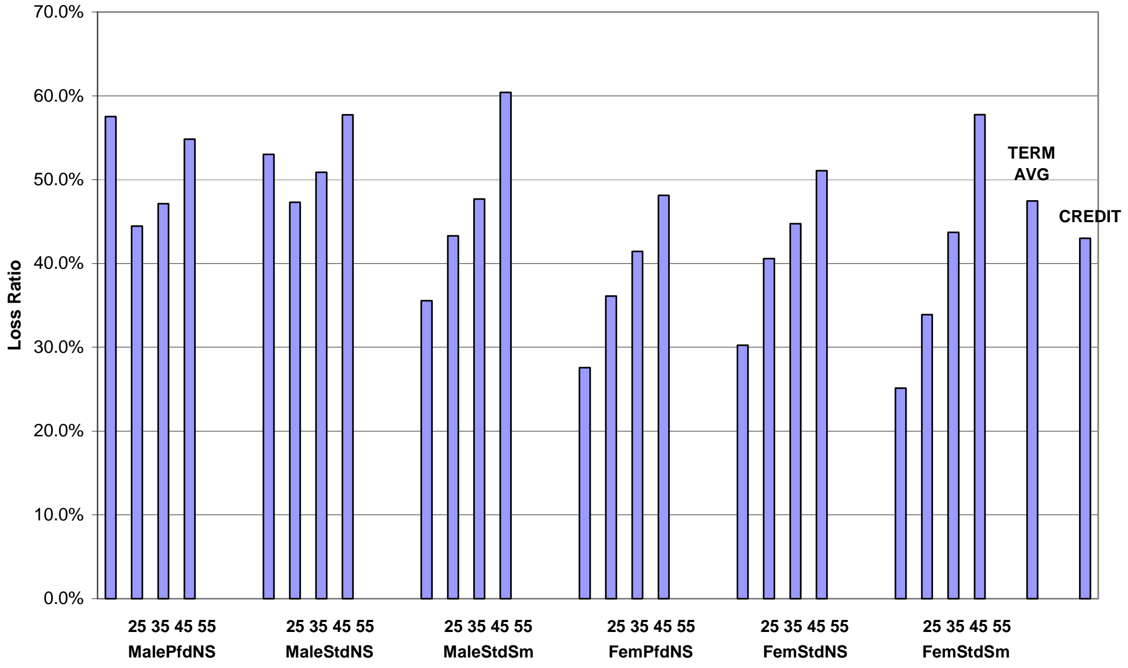

Term Life vs Avg Credit Life Loss Ratios - $250k
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Loss Ratio
TERM AVG
CREDIT
25 35 45 55
MalePfdNS
25 35 45 55
MaleStdNS
25 35 45 55
MaleStdSm
25 35 45 55
FemPfdNS
25 35 45 55
FemStdNS
25 35 45 55
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