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Household

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Sent Via Fax to: 202-906-7755 & US Mail

Manager
Dissemination Branch
Information Management and Service Division
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552

Re: Docket #2000-34, Advance Notice of Proposed Rulemaking ("ANPR")
"Responsible Alternative Mortgage Lending"

Dear Sir or Madam:

Household Insurance Group, Inc. (HIG), a subsidiary of Household International, appreciates the opportunity to provide comments on the ANPR concerning "Responsible Alternative Mortgage Lending". HIG provides credit insurance products through its consumer finance and federal savings bank affiliates. We provide both "prepaid, single premium" and "monthly" credit insurance products on all types of consumer finance transactions, including closed-end loans secured by either a first or junior lien on real property (home equity loans). Generally, we do **not** provide credit insurance products on "purchase money" first mortgage loans as these types of loans are not the primary business of our affiliates. Some background information on credit insurance products generally and our comments on the insurance questions posed by the ANPR follow.

Group Coverage/Credit Insurance Characteristics

Credit life and disability insurance products are most often offered through a "group master policy". Most state group insurance laws require a group policyholder (a lender, for example) to offer group insurance coverages to all "eligible entrants" so that there can be no hint of discriminatory practices and they are aware of their eligibility to purchase coverage. Thus, it is necessary for lenders to inform those borrowers eligible to purchase group credit insurance products of their availability.

The convenience of purchase is also an important factor with group credit insurance products. All borrowers below a certain age (usually set by the state credit insurance law or regulation) that are working at least 30 hours a week are eligible to purchase the coverage with generally no requirements for medical exams. Credit insurance premium rates are regulated by state insurance laws and regulations. Usually, there is one rate for all, regardless of health or age (up to the maximum age, which in most states is 65). The coverage amounts are tailored to the loan transaction with decreasing term credit life coverage equal to the unpaid principal balance and any disability or loss of income benefits equal to the monthly mortgage payment. Simplicity and the ease of purchase are credit insurance product features that have traditionally been important to our customers, and by far, the most popular version of our product for closed-end loans is financed single premium.

Customer Demographics

Credit insurance customer demographics closely track those described as "subprime borrowers" in the recently released HUD-Treasury Report on Recommendations to Curb Predatory Home Mortgage Lending. Our customers tend to be lower to middle income, a market segment not traditionally served by the independent insurance agent force. As a result, many of our customers do not have easy access to ordinary life insurance policies with lower coverage amounts tailored to their current income level. Many are single-parent, "heads- of- households" who need and want affordable insurance coverage but may not be able, for budgetary reasons, to pay for that coverage on a monthly or other periodic basis. Many are in the 43 - 53 years of age range, a range where traditional term life insurance coverage tends to become more costly. When comparing these customer characteristics with the survey conclusions from the Life and Health Insurance Foundation for Education discussed later in our comments, it is clear that our customers closely mirror those found to have a definite need for life insurance coverage. For these customers, the purchase opportunity and the ability to finance the premiums are important factors in their decision to obtain and maintain insurance coverage.

ANPR Goals - Key Assumption

The ANPR makes two distinct references to the fact that the current regulations on alternative mortgage lending are "based upon the assumption that most components of a loan contract should...be a matter of negotiation between the borrower and the lender." The ANPR goes further to state that "the market should drive the products offered." HIG absolutely concurs with the premise that the consumer/borrower should drive the market and be able to choose the products and services they wish to purchase. In the 20+ years that HIG has been offering credit insurance products in conjunction with home equity loans, we have seen the financed prepaid, single premium product evolve as a result of consumer demand. The product has evolved from a full-term coverage product to one that covers a lesser period that more closely tracks the actual "life of the loan" (generally 36 to 48 months). Shortening the coverage period results in more affordable premiums on these larger loans and accommodates the shorter-term need for coverage for the vast majority (96%) of our home equity customers today. Consequently, we believe that the assumption on which the OTS based its current regulations still holds true--the market should drive the products offered and should be allowed to continue to do so.

Predatory Practice - Financing "Unnecessary" Fees

In Section C. "Subprime Lending and Potentially Predatory Practices", the ANPR makes reference to "finance unnecessary fees for products like credit insurance" as a "predatory practice that unfairly disadvantage borrowers." Financing the purchase of credit insurance does not unfairly disadvantage borrowers. It is a convenient, simple and affordable coverage that offers a borrower peace of mind when taking out a large home equity loan. Many of our borrowers specifically request coverage, wishing to preserve whatever coverage they may have under existing policies for other uses.

For responsible lenders and financial institutions that comply with federal and state lending laws that exist today, financing single premium credit insurance products is not and never has been a predatory lending practice. We believe 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. In support of our position regarding the "need" for coverage, we offer the following facts from the Life and Health Insurance Foundation for Education's 1998 survey "America's Financial Insecurity":

- 1 in 4 American households have no form of life insurance coverage
- 2 in 4 American households are under-insured with less than 2 to 3 times annual income in total life insurance coverage from all sources
- Nearly 4 in 10 single parent households have no life insurance at all
- 40% of American households with income 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

It is true that credit insurance is not for everyone that takes out a home equity loan. But for many borrowers, it represents a good value and an alternative to purchasing additional ordinary life or disability income insurance policies. Our experience indicates that many American households only maintain group life insurance coverage offered through their employer rather than individually owned life insurance policies. In many cases, that employer group coverage is inadequate to cover the first mortgage and a home equity loan should a death occur. In our market segment, 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 disability insurance, in the home equity lending market.

We are not aware of any documented consumer complaints regarding the actual financing of single premium credit insurance products. Credit insurance critics concerned about predatory lending practices contend that prepaid credit insurance is too expensive and is often "buried" in the loan documents so that the customer is not aware of its purchase as part of the loan. Credit insurance rates vary by state and are regulated by state insurance laws and regulations. If nondisclosure of the purchase is the unscrupulous practice at issue, the federal Truth in Lending Act and Regulation Z already cover credit insurance disclosure requirements and should be enforced.

We have found that our customers like our products and think that financing the premium offers them a convenient and affordable way to purchase insurance that will protect the equity in their home from unexpected occurrences (such as death, disability or loss of income). We firmly believe that the **optional** purchase of prepaid, single premium or other types of insurance products, **clearly disclosed and financed** as part of a home equity loan transaction, should remain "a matter of negotiation between the borrower and the lender." If a borrower feels he or she is adequately protected, there is no reason to purchase insurance coverage. OTS Regulations should not limit a borrower's choice to purchase insurance coverage and finance that purchase as part of a loan transaction.

Financing Prepaid Credit Insurance

The ANPR requests information regarding "to what extent does...the financing of prepaid credit life insurance...vary among housing creditors or between housing creditors and insured depository institutions." It has been our experience that the financing of prepaid credit insurance products in conjunction with closed-end loans varies little from creditor to creditor. The federal Truth in Lending Act and Regulation Z are very specific as to the disclosures that must be provided when optional prepaid credit insurance products are purchased as part of a closed-end loan transaction. The disclosures include a statement as to the optional nature of the purchase, the premium amount, the coverage term, if less than the loan term and a, written, affirmative indication by the borrower of their desire to elect coverage. In fact, Regulation Z does not even outline required disclosures for credit insurance premiums paid on a monthly basis, because it was never contemplated that monthly insurance coverage would be offered in conjunction with closed-end loans. To the best of our knowledge, credit unions are the only type of creditors today that offer monthly premium credit insurance products on closed-end loans at point of sale.

Should the OTS Impose Limits on Financing Fees/Charges?

When obtaining a loan from an ethical, responsible lender, a borrower always has a choice to purchase or not purchase prepaid credit insurance products. Consequently, we do not believe the OTS should limit a borrower's ability to finance that purchase. In connection with high-cost loans, the ability to finance may be all that more important in order for a borrower to spread the cost of life or disability insurance coverage (which they may sorely need) over the term of the loan. We feel it is important to preserve a borrower's ability to choose. An alternative to an outright prohibition on financing could be adding a second choice, such as requiring that creditors offer both a credit insurance product paid on a monthly basis and a prepaid, financed credit insurance product and allowing the borrower the option to choose.

State Initiatives/Regulatory Approaches to Address Predatory Lending

The ANPR requests comments on the advantages and disadvantages of state initiatives and regulatory actions intended to address predatory lending. We strongly disagree with the approach taken in North Carolina that prohibits the financing of all prepaid life and health insurance products as part of the loan transaction. We believe that some home equity loan customers will be significantly disadvantaged by this prohibition in that they will be unable to afford insurance coverage they have traditionally purchased because its cost can no longer be financed.

Electing to purchase prepaid insurance products as part of the loan transaction allows a borrower to more effectively budget their loan and insurance costs on a monthly basis. Monthly premiums for credit or ordinary term life and disability insurance products are substantially greater than the monthly cost of prepaid insurance premiums financed over the term of the loan. Financing of prepaid premiums over a longer period of time lowers the monthly cost of insurance, and thus makes it possible for a greater number of borrowers to affordably insure against the risks of losing their homes.

Although we attempted to inform the North Carolina legislature about prepaid vs. monthly premium credit insurance products, we were never given the opportunity to speak to the inaccurate and sensationalized rhetoric on this subject that was being circulated. The adverse politics of the situation eventually won out and flawed legislation was enacted. We believe that ultimately the North Carolina legislation will have the unintended effect of decreasing the availability of both credit (higher risk, especially) and credit insurance. In our view, this legislation may end up harming the vulnerable individuals it sought to protect.

The New York regulatory proposal, on the other hand, is a much more reasoned approach to a difficult subject. At least the regulation recognizes the value of prepaid insurance products and caps insurance and prepaid points, etc. on high-cost loans only based upon certain customer debt ratio and income criteria. Given a choice, we would endorse New York's approach to financing prepaid insurance products over North Carolina's outright prohibition.

Summary

We strongly believe that prohibiting the financing of "prepaid" credit insurance products will disadvantage those customers that rely upon credit insurance to fulfill their insurance needs when taking out a home equity loan. Lower income customers tend to be more payment sensitive and therefore may choose not to purchase a credit insurance product if it will significantly increase their monthly "out-go". We do not believe there is documented proof that prepaid, financed credit insurance products are harming consumers. Only the most unscrupulous lender would violate the law, bury the premium, withhold documents and mislead a borrower into purchasing a product without their knowledge.

Our credit insurance products carry a 30-day "free look" during which a borrower can review the certificate/policy and decide whether or not they wish to retain the coverage or cancel it for a full refund. Also, if a financed prepaid premium credit insurance product is canceled during the insurance term, the borrower receives a refund of the unearned premium. We quote loan payments with and without insurance premiums so that borrowers are aware of the difference in monthly cost. We truly believe prepaid credit insurance products are needed and valued by our customers and we urge the OTS not to adopt revised regulations that eliminate a borrower's ability to finance prepaid insurance products. Instead, we support enforcing existing federal and state laws regulating credit and insurance transactions to eliminate predatory activities.

We would be happy to provide more information on credit insurance products, state regulation of the same, statistical information, etc. that would assist the OTS in their regulatory effort to eliminate predatory lending practices. Please contact us if you have any questions or if we can be of further assistance on the prepaid insurance issue.

Sincerely,

Daniel R. O'Brien
Managing Director
Household Insurance Group