January 2, 2008

Linda Jones-Neely, Senior Vice President
Specialty Products Division
SWBC
9311 San Pedro, Suite 600
San Antonio, TX 78216

Re: Replacing Credit Life Insurance with Debt Cancellation Coverage.

Dear Ms. Jones-Neely:

You have asked if a federal credit union (FCU) may replace the credit life insurance (CLI) policies it offers borrowers with a debt cancellation (DC) program. NCUA does not object to this substitution if it is permissible under applicable state law and the terms of the CLI contracts. You also asked if the draft notice your company plans to provide for FCUs to use with their borrowers is adequate. We generally do not review individual forms for particular credit unions or companies. For guidance, however, we suggest you could follow, although it would not be required, Regulation Z's requirements for credit card issuers changing CLI providers. Also, the Comptroller of the Currency's requirements for disclosures related to DC programs provide another model for disclosures to borrowers being converted from CLI to DC programs.

CLI and DC programs are distinct products and converting from one to the other has been the subject of public comment at the Federal Reserve. CLI policies are regulated as insurance products under state law and are offered by third-party insurers. DC programs are contractual arrangements between creditors and borrowers without a third-party insurer. DC agreements are permissible loan-related products for FCUs under NCUA's Incidental Powers rule. 12 C.F.R. §721.3(g). The Federal Reserve's Truth in Lending Regulation, Regulation Z, has required disclosures for credit card lenders converting from one CLI provider to another, but does not include required disclosures for conversions from CLI to DC programs. Although the Federal Reserve requested comment on adding disclosure requirements for conversions from CLI to DC programs to Regulation Z in 2003, it did not add any requirements. 68 Fed. Reg. 68793 (Dec. 10, 2003). We also note that the Comptroller of the Currency also has a regulation regarding sale of DC and debt suspension products. 12 C.F.R. Part 37.

Although neither the Federal Reserve nor OCC regulations noted above applies directly to a lender converting its CLI policies to DC programs, we believe credit unions can look to the Regulation Z provisions on disclosures for DC programs and the OCC regulation as a model for disclosures as good guidance when converting from CLI to DC programs.

We also note the Federal Reserve recently issued extensive proposed revisions to Regulation Z that, although not addressing CLI to DC conversion disclosure requirements, would change certain requirements for DC programs. 72 Fed. Reg. 32948 (June 14, 2007). For example, the proposal would apply disclosure and consent requirements for any CLI, DC or debt suspension product purchased throughout the life of an open-end loan. Id. at 32965. And, although you did not raise this issue, we note there is a Regulation Z requirement that potentially would apply to the conversion you have in mind. Regulation Z does regulates disclosures for DC programs by specifying when a lender can exclude DC program fees in calculating the finance charge. To exclude DC program fees from the finance charge, a lender: cannot require the coverage and must disclose that fact in writing; must disclose the fee or premium for the initial term of coverage; must disclose the term of coverage if the initial term of coverage is different from the term of the credit transaction; and must obtain the customer's affirmative written consent. 12 C.F.R. §226.4(d)(3).

Finally, we suggest FCUs consult with local counsel to determine if state laws and the CLI contract terms permit conversion from CLI to DC programs.

Sincerely,

/S/

Sheila A. Albin
Associate General Counsel

GC/EAW:bhs
07-0231