



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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OCC Rule on Debt Cancellation Contracts and Debt Suspension Agreements Provides New Consumer Protections and Safety and Soundness Standards

WASHINGTON -- The Office of the Comptroller of the Currency has adopted a new regulation adding consumer protections and establishing safety and soundness standards for debt cancellation contracts (DCCs) and debt suspension agreements (DSAs).

Under a debt cancellation contract, a bank agrees to cancel all or part of a customer's loan upon the occurrence of a specified event. Debt suspension agreements call for the suspension of some or all of a customer's obligation to repay an extension of credit upon the occurrence of a specified event.

"The rule we have approved today prohibits or restricts bank practices that have the greatest potential for abuse," said Comptroller of the Currency John D. Hawke, Jr. "The rule also requires banks to provide disclosures on issues that are likely to be most important to customers in deciding whether to purchase DCCs or DSAs."

Insofar as possible, Mr. Hawke said, the disclosures are based on those required by the OCC's insurance sales consumer protection regulations, which are already familiar to banks.

In addition to codifying the OCC's longstanding position that DCCs and DSAs are permissible banking products, the rule establishes important safeguards to protect against consumer confusion and customer abuse.

In particular, the rule bars national banks from requiring a single lump-sum payment for a DCC or DSA purchased in connection with a mortgage loan. The rule also prohibits national banks from:

- Conditioning the availability of credit upon a customer's purchase of a DCC or DSA.
- Engaging in misleading practices or using misleading advertising.
- Retaining a unilateral right to modify a DCC or DSA, unless either the modification is favorable to the customer and is made without additional charge, or the customer is notified of the modification and had a reasonable opportunity to cancel the contract before it takes effect.

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The OCC concluded that the disclosures required under the Truth in Lending Act may not give bank customers enough information about the particular features of a DCC or DSA that may be most important to them.

As a result, the OCC decided to require a number of standardized disclosures that must be used in marketing DCCs or DSAs. The disclosure requirements are structured to accommodate widely used methods of marketing the two instruments, including telephone solicitations, mail inserts and so-called “take-one” applications.

Among other requirements, national banks must:

- Tell customers of the prohibition on tying.
- Explain that a debt suspension agreement, if activated, does not cancel the debt, but only suspends requirements to make payments.
- Disclose the amount of the fees charged.
- Make customers aware of the option to pay in a lump sum or periodic installments.
- Disclose their refund policy if the fee is paid in a single payment and added to the amount borrowed.
- Tell customers whether they would be barred from using the credit line if the DCC or DSA was activated.
- Explain eligibility requirements, conditions and exclusions that might affect a customer’s ability to purchase or obtain benefits under a DCC or DSA.

The rule addresses important safety and soundness issues by requiring national banks that sell DCCs or DSAs to establish and maintain effective risk management and control processes over the instruments, including appropriate recognition and financial reporting of income, expenses, assets and liabilities associated with the products.

National banks are also required to assess the adequacy of their internal control and risk mitigation activities.

The preamble to the rule notes that the authority of national banks to offer DCCs and DSAs is well established. The OCC concluded in 1963 that DCCs were lawful products for national banks to offer, and, in 1990, a Federal appeals court upheld the OCC’s view that such products are banking products and not the business of insurance. DSAs are a variation of DCCs, developed more recently, which the OCC has also recognized as permissible for national banks.

The [rule](#), which will be published in the Federal Register Thursday, takes effect June 16, 2003.

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The OCC charters, regulates and examines approximately 2,200 national banks and 52 federal branches of foreign banks in the U.S., accounting for more than 54 percent of the nation’s banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.