

the treatment of credit insurance that might be affected by H.R. 11601 and the related bills being considered by your Committee.

Our Association does not believe that any responsible spokesman for the insurance industry would oppose separate disclosure of the facts of an insurance transaction consummated in connection with a credit transaction, as now required by S. 5, also under consideration by your Subcommittee. This disclosure, we believe, should be a basic prerequisite to the transaction itself. This is the concept expressed in the so-called Model Bill to Provide for the Regulation of Credit Life and Credit Accident and Health Insurance developed by the National Association of Insurance Commissioners in 1957 and subsequently enacted in a majority of the states.

Serious problems could be created by enforcement of H.R. 11601 if insurance is included in the definition of "finance charge." The basic concept of "disclosure" as presently set forth in H.R. 11601 would be contrary to the principles of the NAIC Model Bill and other state insurance and finance laws and regulations. H.R. 11601 would require the cost of credit life insurance, credit accident and health insurance and property insurance in connection with a credit transaction to be included in the computation of the "annual percentage rate." We do not believe this should be required. The primary benefits from insurance provided in connection with a credit transaction flow to the debtor. If the debtor dies without credit insurance his estate is responsible to discharge the indebtedness. If the borrower is sick or injured and does not have credit accident and health insurance he remains fully responsible for the payments. With credit insurance the underlying obligation is reduced or discharged in accordance with the terms of the insurance policy. Although it is recognized the creditor's collections may be facilitated from the insurance obtained by its borrowers, nevertheless, the primary benefits do inure to the protection of the debtor or his estate.

J. L. Robertson, Vice Chairman of the Board of Governors of the Federal Reserve System in his statement on S. 5 discussed the subject of insurance and concluded "to require that the finance charge include insurance premiums would overstate the actual charge for credit. Therefore, we think that the cost of any kind of insurance is not properly regarded as part of the finance charge, and should be specifically excluded in S. 5." Subsequently, the Senate adopted Mr. Robertson's recommendations, as evidenced by the final version of S. 5 as passed by that body.

More recently Mr. Robertson, in his statement on H.R. 11601 and related bills, again discussed insurance emphasizing that "inclusion in the finance charge of premiums for insurance *that provides a benefit to the borrower over and above the use of credit* would overstate the actual charge for credit" and concluded "that such premiums are not properly regarded as a part of the finance charge, and should be specifically excluded, as provided in S. 5." (emphasis supplied) We strongly endorse this recommendation. We believe the inclusion of insurance costs in determining the annual percentage rate would distort the true expression the sponsors of the bill seem to be seeking.

Meaningful comparisons of percentage rates with insurance included become extremely difficult when it is recognized that similar types of lending institutions charge different rates for similar insurance and offer different plans of insurance with a wide range of premium charges. In credit accident and health insurance, for example, there are numerous variations in benefits with consequent variations of rates being charged. When property insurance is added as a further consideration, the problems are significantly multiplied. Attempting to include insurance costs in the calculation of percentage rates without regard to benefits being provided would only compound confusion where comparison is to be made by debtors, creditors or regulators.

In keeping with the recommendations of the NAIC we believe a more beneficial concept of complete disclosure is accomplished by breaking down, in dollar amounts, insurance costs, if any, so that the purchaser or borrower can see what he is paying for each type of insurance. In this manner and only in this manner can the customer evaluate his insurance costs and coverages. If lumped in generally with "finance charges" the lack of separate identification of insurance costs tends to defeat the real concept of disclosure in that the customer may never be aware that he has insurance much less know what it costs.

Insurance, particularly where written in connection with credit transactions, must stand on its own merits in the eyes of the debtor who pays for the coverage and in the eyes of the creditors and regulators. Insurance must be separately