

Thus, it's being alleged that the banks charge the borrower 50 cents per \$100 in credit life insurance, pay their insurance companies from 38 cents to 44 cents, and pocket the difference. Borrowers in New York State paid \$31 million in credit life premiums in 1965; it's not known what portion of this business was done through New York City banks.

According to the American Bankers Association the five largest New York banks with instalment loan operations are First National City Bank, Manufacturers Hanover Trust Co., Bankers Trust Co., Chase Manhattan Bank, and Chemical Bank New York Trust Co. The first three place their credit life business with Prudential Insurance Co. of America; Chase Manhattan deals with Equitable Life Assurance Society of the United States; and Chemical gives its business to New York Life Insurance Co.

Executives at the five banks were asked to comment on the alleged credit life overcharges. Four of the banks replied that the loans at \$4.75 and \$5.25 weren't directly comparable, so the assumption that the charge for credit life insurance is 50 cents isn't necessarily accurate.

The banks explained, for example, that an auto loan is made at \$4.75 without life insurance. However, if the borrower wants insurance coverage, he's instead given a \$5.25 "personal loan." They're different types of loans; they can't be compared," George Beatty, vice president of Bankers Trust, stated.

In a personal loan, Mr. Beatty explained, the banks give no breakdowns of the basic loan charge and the charge for credit life insurance.

At least one banker, however holds that the difference is largely a legal technicality, rather than a change in provisions. "It's still a secured loan, even if you have credit life insurance," said an official of First National City Bank, referring to auto loans.

An executive at the fifth bank, who asked not to be identified, conceded that the bank is, in effect, charging 50 cents for its credit life. He said the rate exceeds the 44-cent maximum because the bank incurs extra bookkeeping charges even though the policies are issued by an insurance company. Among the extra charges, he mentioned the "cost of handling the life insurance premiums, passing them on to the insurer, and processing the death claims."

The banks that issue \$5.25 "personal loans" with credit life don't give a breakdown of what part of the charge represents the insurance. "We throw in the life insurance—it's not an identifiable charge to the customer," one executive said.

John K. Lundberg, first deputy superintendent of the New York State Banking Department, said he couldn't comment on credit life insurance practices without give the matter study. If the department were to consider the issue, it would undoubtedly have to rule on a key question: Whether the banks' pricing practices become legal simply because "they don't include credit life insurance as an identifiable charge in their \$5.25 loan."

Section 108 of the New York banking regulations says that the banks may charge borrowers for credit life insurance "at a rate not in excess of the premiums chargeable . . . in accordance with rate schedules then in effect and on file with the Superintendent of Insurance for such insurance by the Insurer."

John Kittredge, a Prudential vice president, said the company has had "discussions with several of the New York banks." He said that Prudential told the banks that some people have the "impression they were, in fact, charging 50 cents" on their credit life insurance. He emphasized that Prudential was only "bringing this impression to their attention" and not drawing any conclusions.

John F. Ryan, senior vice president of New York Life, said he also has had "conversations" with a bank. He added that New York Life is studying the pricing of credit life insurance, but hasn't yet reached a conclusion.

Insurance executives have privately expressed fears that Senator Hart's credit life hearings will prove so damaging to the industry it will provoke widespread demand for Federal regulation. The fact the investigation has been extended to New York is considered significant: New York is widely reputed to have the nation's strictest insurance regulations.

The committee's hearings disclosed that in most other states the rate usually charged for credit life insurance is \$1 per \$100, and often the rates aren't regulated by the state insurance department. The committee detailed charges of kick-backs among some finance companies and their allegedly dummy insurance subsidiaries on their credit life business.

It's understood the committee soon will be investigating the question of whether the practices attributed to the New York banks also apply to finance companies operating in New York.