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BULLETIN

CFPB Issues Final Rule on Financing of Credit Insurance on Loans Secured by Real Estate

Below is an outline of the highlights of the Final Rule on Section 1414 of Dodd-Frank Act:

- The Final Rule prohibits 'financing' of any credit insurance/debt protection *where the loan is secured by the consumer's principal dwelling*. There are NO changes to the rules for single premium or any other products for loans **not** secured by principal dwelling/real estate.
- Financing is defined by the CFPB as the deferment of debt and adding that amount to the principal. Transamerica's interpretation on statement is that adding the amount to the principal is a concern of the CFPB because it would trigger interest being charged to the premiums. We need to clarify that interpretation with the CFPB as we feel that point is not entirely clear. Premiums added to the principal and then *paid in that same month*, are not considered financed by the CFPB. It is only if the amount is deferred beyond the due date of the insurance.
- Implementation date is January 10, 2014.
- Level premium products (similar to Transamerica's Home Assurance product) were the subject of much debate in development of the Final Rule. In the end, the CFPB ruled that level premiums **are permitted** on loans secured by real estate - as long as the premiums are not financed. Consumer groups had advocated to the CFPB that those products should not be permitted as they are not 'calculated on a monthly basis'. Industry responded that level premium products are calculated using the original outstanding balance and certain actuarial assumptions around lapse rates, paid claims…..when they are being 'levelized'. That is the procedure used by Transamerica in the Home Assurance product. Ultimately, the CFPB supported the industry on this point and have allowed level premium products…….as long as they are not financed.
- The industry has spoken to the CFPB on the generally accepted premium calculation process used in our industry (i.e. level monthly payments for the loan even though credit insurance amounts are declining each month). We recognize there is a potential to argue that as part of this industry practice, there could be some level of financing of those premiums. The CFPB verbally communicated they are not concerned about that practice. The industry is working to get them to be specific on that point.

There are still some points that need to be clarified. Our trade associations are working to get more clarification particularly page 273 of the Final Rule. In the meantime, the overall message from the CFPB is premium financing on any loan secured by the consumers principal dwelling, is not permitted.

If you have questions, please contact our office at nancy@delongassociates.com or call at (860) 659-3240. Our agency, however, cannot provide you with legal advice. Please review this information with your bank's legal counsel prior to making any decisions.