

REINSURANCE



Credit Insurance Sales, Dodd-Frank Act and Options like CEMOB

By David Craig, senior client executive, transamerica life and protection

You recall hearing or reading about sections of the Dodd-Frank Act and thinking—I wonder if that applies to my community bank's credit life and disability program?

Well, most likely not. Section 1414 of the Dodd-Frank Act revised a portion of the Truth in Lending Act (TILA). The revision to TILA eliminates the ability for financial institutions to finance single-premium credit insurance on closed-end consumer loans secured by a residential mortgage. The revision also eliminates the use of single-premium credit insurance in the unlikely scenario of an open-end consumer loan secured by the principal dwelling of the consumer (i.e., their home). Single-premium credit insurance is still permitted on these loans when the premium is not financed as part of the loan. This new regulation goes into effect January 1, 2013.

While this new regulation prohibits the financing of single-premium credit insurance on consumer loans secured by real estate, it has no effect on all other closed-end consumer loans. For those

closed-end consumer loans, unsecured or secured by any other collateral, financed single-premium credit insurance is still one of the best options to protect the borrower.

Additionally, another credit insurance option that might be considered is offered through ICBA Reinsurance and underwritten by Transamerica. It's closed-end monthly outstanding balance (CEMOB) credit insurance program and is available to financial institutions. With this program, the premium is calculated on the monthly outstanding balance of the loan and the premium is collected as part of the monthly payment.

Since the premium is not financed along with the principal advance at the beginning of the loan, this program is outside the scope of the Dodd-Frank Act. In many states, CEMOB is written on the same certificate that insures the home equity line of credit loans that your bank may already have in place. Installation of the CEMOB program may be a simple alternative.