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(REV. May 31, 2013, to add the Federal Register cite for the final rule)

To: Clients and Friends

From: David F. Dulock

Subject: CFPB Delays Effective Date of the Regulation Z Prohibition on Financing Single-premium Credit Insurance to January 10, 2014

For certain consumer credit transactions for which a creditor receives an application on or after June 1, 2013, the Consumer Financial Protection Bureau (CFPB) amended Regulation Z by adding Section 1026.36 (i) prohibiting the financing of single-premium credit insurance (see our memorandum dated April 10, 2013). The effective date of Section 1026.36(i) was scheduled to be June 1, 2013, but the CFPB by final rule issued today, click here, has delayed its effective date until January 10, 2014. The text of Section 1026.36(i) is reprinted below:

(i) Prohibition on financing single-premium credit insurance.

(1) A creditor may not finance, directly or indirectly, any premiums or fees for credit insurance in connection with a consumer credit transaction secured by a dwelling (including a home equity line of credit secured by the consumer’s principal dwelling). This prohibition does not apply to credit insurance for which premiums or fees are calculated and paid in full on a monthly basis.

(2) For purposes of this paragraph (i), “credit insurance”:

(i) Means credit life, credit disability, credit unemployment, or credit property insurance, or any other accident, loss-of-income, life, or health insurance, or any payments directly or indirectly for any debt cancellation or suspension agreement or contract, but

(ii) Excludes credit unemployment insurance for which the unemployment insurance premiums are reasonable, the creditor receives no direct or indirect compensation in connection with the unemployment insurance premiums, and the unemployment insurance premiums are paid pursuant to a separate insurance contract and are not paid to an affiliate of the creditor.

The CFPB is delaying the effective date of Section 1026.36(i) to January 10, 2014 in order to permit the CFPB to clarify, before Section 1026.36(i) takes effect, its applicability to transactions other than those in which a lump-sum premium is added to the loan amount at closing. In the near future, the CFBP will publish a proposal seeking public comment on clarifications to Section 1026.36(i), including public comment on the applicability of the prohibition to transactions in which credit insurance premiums are charged periodically – i.e., whether and under what circumstances credit insurance premiums may be charged periodically under §1026.36(i).

Thus, with this delay in the effective date, §1026.36(i) will be effective for any transactions where applications are received by the creditor on or after January 10, 2014.

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