

OFFICE OF FINANCIAL INSTITUTIONS

OFI BULLETIN

BL-04-2006 [B,SB,SL]
October 6, 2006

TO: CHIEF EXECUTIVE/MANAGING OFFICER OF ALL BANKS AND THRIFTS

FROM: JOHN DUCREST, COMMISSIONER

SUBJECT: CLARIFICATION OF EXPECTATIONS REGARDING THE SALE AND FINANCING OF SINGLE PREMIUM CREDIT-RELATED INSURANCE

Act 237 of the 2006 Regular Legislative session became effective August 15, 2006. The OFI proposed this legislation to amend licensing and renewal requirements, expand enforcement authority, and prohibit imposition of certain fees and charges, among other things, under the Louisiana Residential Mortgage Lending Act (RMLA). Of particular interest is the new Section, LSA-R.S. 6:1096 (G)(3), which prohibits the financing of certain types of single premium insurance in the loan amount of a residential mortgage loan.

This new Section was added to the RMLA in response to complaints of abusive practices involving the sale and finance of single premium insurance in connection with residential mortgage loans. The prohibition was intended to address the practice of selling single premium credit related insurance and financing the premium which is then amortized over the life of the loan which is significantly longer than the term of the insurance product. This product has been prohibited for many years by Freddie Mac and Fannie Mae, and in national settlements with national lenders, this practice was part of a list of abusive practices which were banned as part of the settlements. These settlements resulted in fines and penalties of hundreds of millions of dollars.

In its examination procedures, for loans made under the RMLA after the effective date of the Act, OFI will continue to focus on transactions that include the abusive practice described herein, in which the term of the residential mortgage loan (particularly those made for purchase, or refinance of purchase money) and the term of the financed credit related insurance product, are significantly different in duration.

The financing of single premium credit-related insurance under the Louisiana Consumer Credit Law (LCCL) or the sale of credit-related insurance using the monthly outstanding balance option is not

Sale and Financing of Single Premium Credit-Related Insurance

BL-04-2006

October 6, 2006

Page 2 of 2

affected by this new Section, although all limits on fees and charges and other requirements of the LCCL apply to loans contracted under this law. Please note that nothing in this Section should be construed to prohibit lenders from securing forced placed insurance to protect collateral when a borrower does not maintain required insurance on their property.

Lenders may consider this guidance as a point of reference in connection with risk management of their portfolio of residential mortgage loans that include a single premium financing component, and take such steps in mitigation as deemed appropriate based on type and extent of risk, if any, determined to be present in such portfolio.

While our goal was to address abusive consumer lending practices with this legislation, the effect may be beyond what was anticipated. The information and knowledge of current practices provided by trade associations such as the Louisiana Bankers Association (LBA), as well as by individual industry members, are of much assistance to this agency in its dual responsibilities to the consuming public, and to industry safety and soundness. We look forward to working with the LBA between now and the next session to craft language which will address the concerns with this Section.

This bulletin will also be posted on OFI's website at www.ofi.louisiana.gov. If you have any questions, please contact me directly at 225/922-0636 or jducrest@ofi.louisiana.gov, or General Counsel Sue Rouprich at 225/922-1028 or srouprich@ofi.louisiana.gov, or Chief Examiner Sid Seymour at 225/925-4675 or sseymour@ofi.louisiana.gov, or Deputy Chief Examiner Darin Domingue at 225/922-2596 or ddomingue@ofi.louisiana.gov.