Advisory

RICHARD L. CLELAND
ASSISTANT ATTORNEY GENERAL IN CHARGE
CONSUMER PROTECTION DIVISION
LINDA THOMAS LOWE
ASSISTANT ATTORNEY GENERAL
JAMES M. PETERS
ASSISTANT ATTORNEY GENERAL
DEAN A. LERNER
ASSISTANT ATTORNEY GENERAL
TERRENCE M. TOBIN
ASSISTANT ATTORNEY GENERAL
SUSAN BARNES BRAMMER
ASSISTANT ATTORNEY GENERAL

Department of Justice

THOMAS J. MILLER
ATTORNEY GENERAL

ADDRESS REPLY TO:
CONSUMER PROTECTION DIVISION
HOOVER BLDG., SECOND FLOOR
1300 EAST WALNUT
DES MOINES, IOWA 50319
515/281-5926

February 12, 1985

RE: Your Inquiry Concerning Tying Purchase of Credit Insurance to Interest Rates

Dear

This letter is in response to your inquiry of January 11, 1985, in which you posed the question:

> Can a national bank in the State of Iowa offer to its customers a lesser rate on a loan with credit insurance than on a similar loan without credit insurance.

You qualified your question by stating that the customer could obtain the lower rate by securing credit insurance from another source. In addition you also stated in our phone conversation of February 7, 1985, that by "credit insurance," you meant credit life and disability as defined in § 537.2501(2) of the Iowa Consumer Credit Code (ICCC) which provides:

> An additional charge may be made for insurance written in connection with the transaction as follows:
>
> * * *
>
> (b) With respect to consumer credit insurance providing life, accident, or health coverage, if the insurance coverage is not required by the creditor, and this fact is clearly and conspicuously disclosed in writing to the consumer, and if, in order to obtain the insurance in connection with the extension of credit, the consumer gives specific dated and separately signed affirmative written indication of his desire to do so after written disclosure to him of the cost.

CPAD-21

Clearly a creditor such as a national bank may offer such credit insurance as a permissible additional charge (<u>See</u>: 15 U.S.C.A. § 1605 and Reg. Z 226.4(d) for similar provision in the Truth In Lending Act) which may be excluded from the finance charge so long as the conditions set out in the statute are met. Essentially, the creditor is required to make it clear to the consumer that the purchase of such insurance is completely optional and that if such insurance is desired, it need not be purchased from the creditor.

You should also know that the ICCC does not presently permit the sale of credit unemployment insurance. A rule of the ICCC administrator is necessary before any insurance other than that specified in § 537.2501(2) may be sold in connection with a credit transaction. Rule making is presently in process concerning unemployment insurance.

In the situation you describe, the bank would have to make it clear to the consumer that in order to obtain the lower APR they would be paying an <u>additional</u> charge for the insurance as well as an <u>additional</u> finance charge if the insurance is financed.

In addition, the bank would have to take great care to correctly represent the available APR in all advertisements and in all discussions with consumers. (<u>See</u>: ICCC § 537.3209.)

Please be advised that this letter is neither a ruling by the ICCC administrator nor is it an opinion of the attorney General. If you have any additional questions concerning this matter, please contact the undersigned.

Sincerely,

Linda T. Lowe

LINDA THOMAS LOWE
Assistant Attorney General

cf

Encl.: § 537.2501
§ 537.3209
Reg. Z 226.4(d)