



THOMAS J. MILLER  
ATTORNEY GENERAL

## Department of Justice

CONSUMER PROTECTION DIVISION

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

March 10, 1986

RE: Whether a Consumer Creditor May Require Borrowers to Have  
Credit Life and/or Accident and Health Insurance

Dear :

You recently requested the advice of the Administrator of the Consumer Credit Code on whether or not a consumer creditor may require a certain class of borrowers to have credit life and/or credit accident and health insurance. As you noted in your letter, a lender may require credit insurance only if the cost of the insurance is included in the finance charge (See: Iowa Code § 537.2501(2)(b) and § 537.1301(19)(a) and Regulation Z, 12 C.F.R. § 226.4(d)(i).)

If the consumer creditor does require credit life and disability insurance, the consumer credit code does not specifically provide that the creditor must advise the consumer that he may choose the person from whom he will purchase the required insurance. However, under Iowa insurance law, a consumer creditor may not require as a condition precedent to an extension of credit that the borrower purchase credit insurance from a particular insurer (See: Iowa Code § 507B.5 [1985]). If the lender required that the borrower purchase the necessary insurance from the lender, the lender would presumably be in violation of § 507B.5.

While the consumer must have the option of purchasing the required insurance elsewhere, the creditor should realize that for purposes of whether the cost of the insurance must be included in the finance charge, it does not matter that the required insurance was not purchased from the creditor. "The premium for a life

insurance policy purchased and assigned to satisfy a credit life insurance requirement must be included in the finance charge, but only to the extent of cost of the credit life insurance if purchased from the creditor or the actual cost of the policy (if that is less than the cost of the insurance available from the creditor)." (See: 12 C.F.R. Part 226, Supp. 1, Comment 4(b)(7) and (8)-3.) In contrast if the consumer uses life or accident and health insurance already owned by him to meet the insurance requirement, this insurance is not "written in connection with the transaction" and therefore the cost need not be included in the finance charge.

In your inquiry, you also asked whether the insurance could be required of a "certain class of borrowers." You did not specify what "class" of borrowers might be required to have the insurance. Under the Iowa Consumer Credit Code (ICCC), a lender may not discriminate by imposing:

"...finance charges or other terms or conditions more onerous than those regularly extended by that creditor to consumers of similar economic backgrounds because of the age, color, creed, national origin, political affiliation, race, religion, sex, marital status or disability of the consumer, or because the consumer receives public assistance, social security benefits, pension benefits or the like, or because of the exercise by the consumer of rights pursuant to this chapter or other provisions of law. [Emphasis Added.]

Iowa Code § 537.3311 (1985).

In summary, a lender in a consumer loan transaction may require that the borrower have credit life and/or credit accident and health insurance so long as the cost of any credit insurance written and purchased in connection with that transaction is included in the finance charge and so long as there is no violation of Iowa Code §§ 507B.5 and 537.3311 (1985). Please understand that this letter is advisory only; therefore, it is neither a rule or a declaratory ruling of the ICCC administrator nor an opinion of the Attorney General.

Sincerely,



LINDA THOMAS LOWE  
Assistant Attorney General