



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

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TO: Regional Director, Region IV (Chicago)  
H. Allen Carver

FROM: Assistant General Counsel  
Steven R. Bisker

SUBJ: Required Insurance on Home Improvement Loans - Teledyne  
Continental Employees Federal Credit Union

DATE: July 9, 1987

This is in response to your memorandum of May 8, 1987, which asked if the subject FCU could require borrowers to purchase default insurance on home improvement loans from the United Guaranty Residential Insurance Company of North Carolina. You specifically asked if requiring such insurance was permissible under Part 721 of the NCUA Rules and Regulations, and also inquired about the applicability of Section 226.4(d) of Regulation Z to this issue.

Nothing in the FCU Act nor the NCUA Rules and Regulations would prohibit the FCU from requiring a member to purchase the subject insurance from a particular insurance company. Of course, in making the insurance available to its members, the FCU must comply with the requirements of Part 721. Particular attention should be paid to Section 721.2(c), which prohibits officials and employees of FCU's from receiving any compensation or benefit, directly or indirectly, in conjunction with any activity under Part 721.

Section 226.4(b)(7) of Regulation Z provides that premiums or other charges for credit life, accident, health, or loss-of-income insurance written in connection with a credit transaction must be included in the finance charge. Section 226.4(b)(8) provides that premiums or other charges for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property, written in connection with a credit transaction must be included in the finance charge. Section 226.4(d) sets forth the conditions under which premiums paid for credit life, accident, health, or loss-of-income insurance may be excluded from the finance charge. Section 226.4(d)(2) sets forth the conditions under which premiums paid for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property may be excluded from the finance charge. We do not believe that Section 226.4(d) is applicable to the instant situation. Instead, it is our view that Section 226.4(b)(5) is controlling.

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Section 226.4(b)(5) provides that premiums or other charges for any guarantee or other insurance protecting the creditor against the consumer's default or other credit loss must be included in the finance charge. It is default insurance that is at issue here. This type of insurance cannot be excluded from the finance charge under Section 226.4(d). Premiums described in Section 226.4(b)(5) must be included in the finance charge for the period that the creditor requires the insurance to be maintained. The amount of the premiums must be disclosed as being part of the finance charge. See, Sections 226.6(a)(4) and 226.18(c) of Regulation Z.