September 29, 1997

Daniel E. Best, Esq.
Weltman, Weinberg & Reis
323 Lakeside Avenue, West
Cleveland, Ohio 44113

Re: Collateral Protection Insurance
Your letter dated July 28, 1997

Dear Mr. Best:

You have asked whether federal credit unions (FCUs) that purchase collateral protection insurance (CPI) are prohibited from adding the CPI premiums to a member's loan balance more than once. You also ask whether FCUs that add CPI premiums to a member's loan balance are required to increase the member's monthly loan payments by the amount necessary to recoup the cost of the CPI, over the life of the CPI policy, as opposed to over the life of the loan.

You state that CPI protects an FCU from the risk of a loss when a member fails to maintain the required insurance on a vehicle securing a loan. You further state that, pursuant to the terms of a promissory note, an FCU that has to purchase CPI normally adds the CPI premiums to a member's loan balance, which results in increasing the monthly loan payments or, in limited cases, extending the term of the loan.

Although there are no specific regulations addressing how CPI premiums should be handled, it is NCUA's position that an FCU may add CPI premiums to a member's loan balance each time it has to purchase CPI to provide insurance coverage on that member's vehicle. Further, as a matter of safety and soundness, if CPI premiums are added to a member's loan balance, the FCU must increase the member's monthly loan payments by an amount equal to the cost of the CPI, amortized over the life of the CPI policy, not the life of the loan. This way, by the time the CPI policy expires, the member would have fully reimbursed the FCU for the cost of the CPI.

Since your questions on how CPI should be handled when added to a loan are basically ones of safety and soundness, please feel free to contact NCUA's Region IV Office at 630-245-1000 if you have any additional questions on this subject.

Sincerely,

Sheila A. Albin
Associate General Counsel

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97-0737