

# **Texas Department of Banking**

## **Press Release**

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### **Texas Banking Commissioner Announces a New Rule and Additional Guidance on Debt Cancellation Contracts and Debt Suspension Agreements**

Date: April 21, 2003

Texas Banking Commissioner Randall S. James announces the adoption of 7 TAC §12.33 by the Texas Finance Commission, authorizing a state bank to offer and sell debt cancellation contracts (DCCs) and debt suspension agreements (DSAs). The rule becomes effective May 1, 2003.

A DCC is a loan term or contractual arrangement between a lender and borrower by which the lender agrees to cancel all or part of the borrower's obligation to repay a loan upon the occurrence of a specific event, such as the death of the borrower. A DSA is a loan term or contractual arrangement between a lender and borrower where the lender agrees to suspend all or part of a borrower's obligation to repay the loan upon the occurrence of a specific event, such as a medical disability or loss of employment.

New 7 TAC §12.33 establishes standards for state-chartered banks to issue DCCs and DSAs. In addition, the rule addresses consumer protections, fees, disclosures, and affirmative elections the customer must make to purchase DCCs or DSAs.

"Before a state-chartered bank begins offering DCCs or DSAs as alternatives to credit life or disability insurance," Commissioner James stated, "it is critical that management explore the unique risks and benefits these products entail to ensure that this business is conducted in a safe and sound manner."

Because the sale of DCCs and DSAs, as compared to credit life or disability insurance, transfers risk to the bank formerly assumed by third parties, the Department advises managers to research and understand the impact of this risk transfer. The following areas should receive priority consideration:

- Compliance with rules and regulatory guidance;
- Consumer protections and disclosures;
- Policies and procedures;
- Capital protection and limits on volume;
- Reserves established for potential losses and the methodology that will be used to calculate reserve adequacy;
- Accounting treatment and income recognition;

Department examiners will be reviewing bank DCC and DSA activity. Additional procedures and guidance will be forthcoming. You can view 7 TAC §12.33 on the [Department's website](#). Any questions or comments should be directed to Kurt Purdom, [Director of Strategic Support](#), or call (512) 475-1300.