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DEPARTMENT OF BUSINESS REGULATION
BUREAU OF CONSUMER PROTECTION
STATE HOUSE STATION 35
AUGUSTA, MAINE 04333

ADVISORY RULING #63
DECEMBER 22, 1981

December 22, 1981

Dear

You have asked the Bureau to interpret the provisions of 9-A M.R.S.A. § 8-105(2)(B) concerning the disclosure of the "total cost" of credit insurance when the premiums are calculated periodically based on the monthly outstanding balance.

With respect to open-end credit, the Bureau will interpret the requirement of the disclosure of the "total cost" to refer to the unit-cost basis where the monthly outstanding balance (MOB) method is used. Any other result would prohibit the sale of credit insurance in open-end credit, a result not intended by the Bureau when this non-uniform amendment was suggested to the legislature. As you pointed out as well, 9-A M.R.S.A. § 4-107(2) expressly permits unit-cost calculation for open-end credit. This result is also reached by analyzing the phrase "if the term of the transaction is 10 years or less" in Section 8-105(2)(B). This implies that a set term (maturity) is necessary to trigger the total cost disclosure, a feature not part of an open-end plan. The Bureau, therefore, adopts so much of Regulation Z, § 226.4(d)(1)(ii) as allows unit-cost disclosure of credit insurance premiums in open-end credit.

You also raise the issue of the impact of Section 8-105(2)(B) when the MOB method is used to calculate insurance premiums in a closed-end contract. You propose to disclose the total cost of credit insurance assuming that payments are made according to the disclosed repayment schedule. This is perfectly acceptable and conforms to the disclosure of the finance charge in a simple interest transaction in which the actual finance charge imposed may differ based on the actual payments made by the consumer. See Regulation Z, § 226.17(e).

Sincerely,

/s/ Barbara R. Alexander

Barbara R. Alexander

BA:as

Superintendent