Louisiana
Credit Union League

July 31, 2009

Ms. Jennifer J. Johnson
Secretary
Board of Governors
Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket #R-1364 – 12 CFR Part 226
Interim Final Rule - Regulation Z Changes from Credit Card Act of 2009

Dear Ms. Johnson:

On behalf of the Louisiana Credit Union League and the credit unions we represent in the state of Louisiana, we would like to provide the following official comments regarding the interim final rule issued by the Federal Reserve Board on July 15, 2009 regarding the implementation of the Credit CARD Act of 2009 and its impact on Regulation Z. As the state trade associate for Louisiana's 230 member-owned not-for-profit financial cooperatives, we are greatly concerned that a large number of the proposed requirements will create unnecessary cost and burden for financial institutions like credit unions that were not involved in the abusive practices by some, which fostered this legislation. In fact, at most credit unions, it is the consumer – credit unions' member-owners – who will pay the highest price for aspects of this burdensome proposal.

Please know that, in principle, we are not opposed to the changes in the regulation as they relate specifically to credit cards. Considering the egregious practices by some profit driven institutions of which credit unions were not involved, it seems appropriate that additional transparency and stronger disclosures are warranted. As long as it is balanced and does not spill over to adversely impact financial institutions that were not engaged in such practices, we feel that reasonable regulation in the credit card field could be positive. After all, we do not want to see the reputation of our solid and sound credit card programs damaged by those who have not had the consumer interest at heart.

However, we are quite concerned that the interim final rule has gone beyond balanced credit card regulation and gotten out of balance with the inclusion of all other open-end loans. We strongly encourage the Federal Reserve Board to seriously consider the impact of this interim final rule on our credit union members who have open-end loans and the institutions that will be required the burden of compliance as it relates to these loans.

For example, we are troubled about the interim final rule as it includes multi-featured open-end lending plans in the Reg Z changes stemming from the Credit CARD Act of 2009. We feel that including such loans in the final regulation would create a considerable hardship for our credit unions' members who regularly borrow from our credit unions. Most of the loans made by credit unions under this interim final rule would be auto loans that have fixed

terms, no available limits and are reported to the credit bureau agencies as installment loans. It would not appear that the legislation was intended to cover such loans. However, since many of these loans are created under the multi-featured open-end lending plan, these loans are subject to the additional regulation specified under the interim final rule.

When adopting the final rule, the Federal Reserve Board should consider the negative implications of these requirements. For example, as our credit unions extend credit to their members through the multi-featured open-end lending plan, they are able to simplify future loan requests for members, enhance their access to credit and generate cost savings for the credit union itself. Because credit unions are member-owned financial cooperatives, these savings will be transferred to their members in the form of lower loan rates. As a result of the interim final rule, our credit unions will be forced to consider converting these loans into a closed-end lending plan which takes away the member convenience and credit union savings by requiring a new updated loan application for each loan request, regardless of how recent the previous loan was granted or how well documented their files already are in regards to the members. The end result of this procedural shift will result in a higher price for credit to their membership. We fail to see how this is beneficial to the consumer or how it furthers transparency. It seems mostly to be an example of function following form because it is more procedure ridden than beneficial.

We have additional concerns with the interim final rule as it provides that loans under multi-featured open-end lending plan will have burdensome notice requirements that effectively take away the benefit to both credit union members and credit unions that come with the convenience and safety of payroll deduction. Because of this provision, many credit unions will have no choice by to avoid the unrealistic notice requirements by removing members from payroll deduction payments and converting them to a formal monthly payment plan eliminating the automatic payment service of payroll deduction. This will require each member to take individual action to pay their loan each month, an action that they could easily miss some months, which could hurt their credit rating and create a record of delinquency that could have been very simply avoided had the member been able to continue paying through payroll deduction.

The reason that financial institutions will have to remove many of their borrowers from payroll deduction payment plans is that it will not be feasible to provide advance 21-day written notice on weekly, bi-weekly or semi-monthly payroll deducted payments. Financial institutions will be forced to revise their procedures and, in doing so, make the loan payment procedures less convenient for these members. In addition, there could also be a real dollar cost to the member in this scenario because he or she could make payments later on a simple interest loan some months than would be the case under an established payroll deduction payment plan. The result will be more interest paid by the member, and at the same time he or she has lost the convenience of payroll deduction. We encourage the Federal Reserve Board to consider this aspect of the interim final rule carefully for unintended consequences.

We realize that some might say that another option available would be for credit unions to convert payroll deducted loans to a closed-end lending agreements. Not only does this create an inconvenience to the member of completing new loan documents on an existing obligation, but the short window for compliance frankly makes the process of collecting new loan documentation impossible. This consumer inconvenience and disadvantage is clearly an unintended consequence from the new Act, and we believe the rulemaking authority of the Federal Reserve Board should accommodate this concern and correct it in the final rules.

Also, as it relates to notices and disclosure, Louisiana's credit unions are wholeheartedly committed to financial education and transparency to their members in all of their financial dealings at the credit union. Unlike at stockholder owned banks, the members of a credit union (in other words, the deposit holder and the borrower) can show up at the annual meeting and challenge the fairness of our procedures. It is this member-centric reality that keeps credit unions on the front line of full disclosure and commitment to financial literacy. However, we also have found throughout our experience that multiple notices of an identical disclosure type minimize effectiveness, create confusion and serve as an irritant to many members. This ineffectiveness and irritation factor is not minimized by receiving the new notice via mail or electronic delivery. Unnecessary and redundant disclosures distract from those disclosures that are necessary and prudent for consumer education and protection. Unfortunately, credit union members are not given the ability to "opt-out" of such notices and will inappropriately place the cause of unwanted notices on the credit union - thus straining the relationship between a member-owner and his or her credit union.

It is our estimate that credit union expense for providing these repetitive notices to our members will be considerable. In addition, significant staff time will be required to come into compliance with the interim final rule in time for the very tight August 20 deadline. We strongly encourage a re-evaluation of the deadline and a solution to the payroll deduction concern expressed herein.

We want to express our appreciation to the Federal Reserve Board for the opportunity to provide our official comments for the record on the interim final rule. We again encourage the Board to apply a reasonable and balanced standard to the Reg Z requirements of the Credit Card Act of 2009, particularly as it relates to multi-featured open-end lending, notice requirements and payroll deduction.

Sincerely,

Anne M Cochran

Anne Cochran, President/CEO
Louisiana Credit Union League