From: Stephen E. Pollman, Jr.

Subject: Reg Z - Truth in Lending

Comments:

Board of Governors of the Federal Reserve Board
Washington, DC

Dear Honorable Governors:

The efforts of those passing and implementing the Credit Card Accountability & Disclosure Act should be applauded in so much as these efforts help rein in the abusive practices of some credit card issuers. However, the language in the act which has had the apparent consequence of including all open-end consumer credit was not well thought out and is going to have disastrous unintended consequences in the credit union industry. At my credit union, we have been following with interest, but without much concern, the development of this new credit card legislation because, like most credit union, we are already in compliance with the new consumer protections being legislated/regulated. On the other hand we have been completely blindsided by the late addition of this additional language which is going to punish the one segment of the consumer credit industry which has been historically the most consumer friendly.credit unions.

Credit unions are organized differently than most other segments of the financial services sector. Even the largest among us are cooperatives, owned by our members, who are the only benefactors when we are successful at serving their needs. Mostly we started small and grew by being very innovative in offering new services and by adopting developing technologies to more effectively serve the expanding needs of our members. We watch our operational costs very closely, because while we are not for profit, in order to survive and grow we must still maintain and even build adequate capital, which means we must still maintain a profitable operation. With credit unions, profitable operations are our only means of building the capital that allows us to safely meet the expanding needs of our members. The new language in this act, which is being interpreted as to include all open ended consumer credit, is going to add enormous, and totally unnecessary, additional costs to the operations of credit unions, large and small, and is potentially going to seriously damage the safety and soundness of the credit union industry as a whole.

At Magnolia Federal Credit Union, formerly the Jackson VA Federal Credit Union, we have been serving the needs of our membership since 1935. Presently, we serve over 13,000 members who mostly live and work in the five county area surrounding Jackson, MS. We offer our members a full array of financial services. These services include savings, checking, certificates of deposits and all manner of consumer loans. We offer some very member friendly VISA options, as well as mortgage loans; HELOCs; and student loans. But our bread & butter, so to speak, has been our vehicle financing and signature loans which, like many credit unions, are conveniently provided to members utilizing a multifaceted open ended loan documentation system. This involves a master loan agreement (with disclosures), which is ongoing and may be accessed for multiple and various individual loan requests. Some of these sub-account loans may be true lines of credit, like overdraft protection loans, and others, which are still on open-ended loan agreements, are set up with specific repayment plans. Automobile loans are a typical example of the latter and are set up, with a low fixed rate, for a specific term and fixed payment amount. Our members are diverse and the manner in which they get paid runs the gamete from monthly to bi-monthly to bi-weekly and even weekly. With our current systems we have the flexibility to set up payment plans to meet these diverse needs. Also like most credit unions, we utilize a consolidated periodic statement, which we have found to be a most cost effective means of keeping our members informed of all their various account activity. This consolidated statement system also serves as a cost effective means of maintaining a historical record of each member's total account activity. In fact, our members appreciate this consolidated approach, finding it informative and convenient. In our case, we cut off statement at the end of each month & each quarter, and generally have them in our members hands within 10 days, faster if they elect to receive them electronically. These systems have been in place for many years and have served to help keep our operation costs down, in a very competitive environment.

This new requirement, to provide periodic statements at least 21 days prior to any due date, is no simple matter to our credit union. Furthermore it is an onerous requirement that has neither been desired or ever even requested by our membership. The implementation is going to be unnecessarily expensive and is practically guaranteed to create confusion among our members and, indeed, anger as they come to realize that their convenience has deteriorated and their costs have gone up. And for what good reason? I am unsure. It is not like any of our members are unaware of their upcoming payment schedules. They are given disclosures at the time the advances are made and in the majority of cases payments are made automatically either from payroll or by debiting one of their depository accounts. Others have payment books. But regardless of the payment method utilized, payment amounts and due dates are not a mystery that needs or deserves additional disclosures. I sat in on CUNA's teleconference on the issue this past week and what I heard was frightening. One gentleman did offer up the one solution, which I had personally felt might be workable and the least cost intrusive. His credit union was proposing to post future due dates for the upcoming 45 days, or so, on the periodic statements. However, in the next breath the attorney for the Federal Reserve Board indicated that this solution did not meet the intent, or spirit, of the law. This, apparently because an advance notice of a due date did not constitute a periodic statement 21 days in advance of the payment due, even if the payment notices might regularly be printed on all consolidated periodic statements going forward. We already show the next due date and payment due amount for each loan suffix on every consolidated periodic statement. When I spoke to the software provider for our in-house data system and asked about the possibility of printing multiple future payments on our statements, I was told that this option had been discussed but was no longer under consideration. They simply are not planning to support it.

So what options do we have, if we want to continue to stay in the good graces of Regulation Z?

Ø We can change the date statements are generated. This solution involves running statements for every date that we have loan due dates, or at least often enough to cover a 21 day notice period for every potential loan due date, perhaps weekly. Simple enough, except that we have to give up the convenience of period end statement cutoffs; of allowing members the choice of paying more often than once a month; and consolidated, all inclusive, statements. Why so? Well, because we have many members with multiple loans, many with different due dates, and we have many members who enjoy the convenience and cost savings of paying payments with each payroll. To make this option work, we will need to break out our loans from our consolidated statements and pretty much send a separate statement for each loan account. Furthermore, unless we want to send out periodic loan statements which cover periods shorter than a month, we will have to end the practice of setting up multiple monthly payment due dates which may coincide with a member's payroll dates. Yes, I know that we could set up a monthly payment due date & amounts and the member could still set up smaller more frequent payments. But are members going to appreciate why they are having to be inconvenienced or are they simply going to consider the credit union at fault for being more difficult to deal with? I wonder? (This coincides with the next option.)

Ø The credit union could simply set all due dates up for the end of the month and send the members a subsequent action form notifying them of the change. Here is a member service nightmare in the making if I ever heard of one. This will surely confuse everyone involved.

Ø We could change our consumer lending practices to go with closed-end contracts, but this does not address these same problems with the 5,000 open-end contracts presently on our books. Closed-end lending would eventually end this madness, but at the cost of less convenience to our members as they are forced to come in and sign new contracts, with new disclosures, each and every time they seek to make a change to their credit union borrowings.

Ø The credit union could also consider waiving late charges on affected loans, which is probably the most cost effective alternative, but the loss of fee income is not the only consideration. The potential liability, if we make a mistake reporting and collecting delinquent accounts, makes this alternative unpalatable over the long run.

It is our understanding that the Federal Reserve Board has the authority to delay the implementation of this portion of the Credit Card Accountability and Disclosure Act. We are asking that you act in that capacity, and soon, to delay the August 20th implementation of this interim rule to give credit unions adequate time to seek relief from this ill conceived addition to an otherwise worthy endeavor. Credit Unions are not the problem. They never have been. If we are forced to make the changes that would keep us in compliance with Reg. Z, Truth in Lending, due to these requirements, the cost is going to be dear. Magnolia Federal Credit Union may survive the ordeal, because we are presently well capitalized and a bottom line that has been stronger than average. However, there are many credit unions which may not. The initial costs to make the adjustments will be high, but the ongoing costs due to less cost effective operations is going to be even higher and severely challenge all of our abilities to remain a healthy industry. These higher costs, will necessarily be passed to our memberships in higher loan rates, lower savings rates, increased fees, and a thinner bottom line. Maintaining adequate capital will become even more challenging making It harder to grow as members see less value in Credit Unions. We urge you to act soon in this regard. Credit union open-ended lending systems are not credit cards and it is lunacy in the extreme to hold them to these same requirements.

Sincerely,

Stephen E. Pollman, Jr.