From: Royal Credit Union, Charles M. Grossklaus and Mark Willer

Subject: Reg Z - Truth in Lending

Comments:

Dear Federal Reserve Board of Governors,

Royal Credit Union (RCU) is a credit union serving 120,000 Members. We have 26,000 credit cards outstanding and 62,000 open ended loans that are affected. We are a one billion dollar Credit Union with a reserve ratio of 9.55%.

I would like to commend the Legislature and the Federal Reserve Board on their initiatives to protect credit card consumers from deceptive practices by some of the card providers. The portion of the Credit Card Act that is effective on August 20, 2009, was easy to accomplish for our credit card portfolio because it was very close to our current handling of these accounts. The other credit card changes effective in February and August of 2010 do not appear to be much different than our current practice as well.

The problems we face have to do with the inclusion of the other consumer open ended loan programs that are effective on August 20, 2009. The bill was passed in May of 2009, but clarifying questions could not be answered by any of the government agencies until the publication of the Interim Final Rule published on July 22, 2009. Prior to that publication, we even had further confusion when two different government agencies offered contradicting explanations of what type of loans were to be affected by the Act.

The difficulty we face in implementing the Act to our open ended credit loans is that the Act seems to have been written to apply to the basic structure of the credit card system currently in place, and our other loan products do not share that structure. We are attempting to make something fit that was not designed to do so. An example of this is that our consumer open ended loans do not allow for a grace period in which the consumer can pay off the loan to avoid finance charges. This was already in place for the credit card system and is why it was very easy to meet the effective date of August 20, 2009. Our other open ended loans do not fit this mold.

Once the Interim Final Rule was received, we could begin looking at how to comply on the open ended loans affected by the Act. The only ways to accomplish compliance is either change the date we send our consolidated statements to our Members and/or change their due dates to later in the month or send separate statements for each product the consumer has with us. The latter solution could require as many as six separate statements being sent to the consumer at different times during the month to allow for the 21 day notice requirement. Unfortunately, this solution is not only cost prohibitive but is not desirable

for our consumer Members. They have asked for consolidated statements for their ease of understanding, and we have given it to them.

This only leaves the solution of changing the due date of their loan, explain why we are changing it without notice to them, get a legal opinion of our solutions, and send a statement, all in less than a month. If we cannot accomplish this in that month, we are at risk of being in violation of the Act or having a detrimental affect on our consumers who pay their loans on time.

If we are not in compliance by August 20, 2009, we are prohibited from treating anyone as delinquent in any way. Prohibited activities would include charging late charges for those not paying on time, penalty rate application, legal action for chronic delinquents, and reporting these past due accounts to the credit reporting agencies. Our institution could forego the collection of late charges and the application of penalty rate to accomplish compliance, though it would take away from our efforts to remain a strong financial institution. What we cannot manage is the fact that we cannot report the past dues to the credit reporting agencies. The reporting process and another Federal Regulation do not allow us to report only the accounts that are current. We are required to report all loan accounts or none. Since 99% of our Members pay their loans on time, we are hurting their credit by not being able to report that they did make their payment.

In behalf of our 120,000 Members, we encourage the Federal Reserve Board to continue your efforts to prevent deceptive practices in the credit card issuer area. We ask, however, that the Federal Reserve Board please consider one of two actions as the rule applies to consumer open ended lending. Either remove the open ended loans from this Act or, at a minimum, give the financial institutions three months to accomplish the changes necessary for compliance. This would give everyone a chance to get into compliance with an orderly, informed consumer involvement.

Timing of this decision is of the essence. If you wait until September to make this decision, it will be too late! Financial institutions will have each spent hundreds of thousands of dollars. That leaves the consumer paying even more costs and confused why we are changing these processes at their expense.

Sincerely,

Charles M. Grossklaus and Mark Willer
Royal Credit Union