

From: San Mateo Credit Union, Karen Niederkohr and Barry Jolette
Subject: Regulation Z - Truth in Lending (Credit Card Act)

Comments:

Date: Oct 28, 2009

Proposal: Regulation Z - Truth in Lending
Document ID: R-1370
Document Version: 1
Release Date: 09/29/2009
Name: Karen Niederkohr
Affiliation: San Mateo Credit Union
Category of Affiliation: Commercial
Address:
City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:

October 28, 2009 Ben Bernanke Chairman Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, N.W. Washington, DC 20551
Re: Docket No. R-1370 Dear Chairman Bernanke: In response to the Federal Reserve Board's call for comments pertaining to the second set of proposed rules implementing the Credit Card Accountability, Responsibility and Disclosures Act of 2009 (CARD Act), San Mateo Credit Union (SMCU) respectfully submits the following comments. As background information, SMCU is a state chartered community based credit union in San Mateo County, California. As of September 30, 2009, SMCU had approximately \$593 million in assets serving over 71,000 members. Periodic Statements SMCU contracts with PSCU Financial Services (PSCU) for credit card processing. In addition, we also offer Visa® gifts card through Harland Clarke. Because we outsource our credit card processing and gift card program to third party vendors, we cannot directly control the ability or timeframe of our vendors to meet the proposed compliance requirements. As a result, we must rely on our vendors, particularly PSCU, to make system wide changes to allow us to comply with the changes in the second set of CARD Act rules. Based on the proposed requirements, PSCU will have to make the following system wide changes to our periodic statements: Including a warning statement that making only the minimum payments will increase the interest paid and the time it will take to repay the balance; Including the number of months it will take to repay the balance if only minimum payments are made; Including the total cost to repay the balance (interest and principals payments) if only minimum payments are made; Including the monthly payment required to repay the balance in thirty-six (36) months; Including a toll-free number in which the consumer may receive information about credit counseling and debt management services. We believe these new disclosures on credit card periodic statements will have little benefit to the consumer while requiring responsible lenders, such as credit unions, to incur additional compliance costs to ensure periodic statements include arbitrary requirements.

As an example, please refer to the requirement to include the monthly payment to repay the balance in thirty-six (36) months. Instead of requiring added disclosures on periodic statements, we believe a more effective approach is to educate the consumer, and as a result, we offer several forms of free financial education to our members. Through the BALANCE Financial Fitness Program, our members have an opportunity to work with financial counselors to develop money management skills and develop a personalized spending plan. BALANCE also assists our members with debt management and provides educational tools for members to become more knowledgeable about their financial situation. We also employ a full-time Financial Education Specialist that teaches financial education to local schools, community groups and our members. Allocation of Payments Furthermore, we must rely on PSCU to revise the allocation of payments for our card portfolio. Although system changes must be made to apply a payment to a balance with the highest APR first and then remaining portions to balances in descending order based on the applicable APR, we believe this new rule will be beneficial to our members. Over-the-Limit Fees In addition to the changes that must be made by PSCU, we will also have to make significant changes to our over-the-limit fee structure. Under the proposed rules, creditors will be prohibited from assessing a fee for an over-the-limit transaction unless the consumer is given a notice and a reasonable opportunity to opt-in to the creditor's payment of the transactions. We believe larger financial institutions will likely circumvent the true spirit of the proposed rule by including a provision in account opening disclosures which requires the consumer to authorize the over-the-limit charge. Consumers are already inundated with lengthy disclosures that contain legalese, and as a result, the disclosures typically go unread. Unlike larger financial institutions, we do not try to hide terms in confusing and lengthy disclosures. Since we highly doubt that any of our members will opt-in to a program where they will be assessed a fee, we have elected to discontinue the over-the-limit fee and to forgo the income generated by this fee. As a not-for-profit financial institution, we rely heavily on our modest fee income to support our operations and provide our members with better rates. The reduction in this over-the-limit fee is detrimental to our ability to provide affordable financial solutions to all members. Ability to Pay Finally, we fully support the proposed requirement for financial institutions to evaluate a consumer's ability to pay prior to issuing a credit card. It has been our policy to evaluate the ability of members to pay on all credit applications. If all lenders had engaged in this prudent practice, borrowers could not have become over-leveraged and the current financial situation would have been less likely to occur. However as a corollary to our belief that the creditors should review a consumer's ability to pay a debt, we also believe the consumer must take responsibility to appropriately manage their finances. Although we believe consumer protection is important, it has been our experience that legislation and regulations such as the CARD Act have little direct benefit to the consumers, while increasing compliance burdens and costs to smaller financial institutions. Ultimately, these compliance burdens and costs are passed to the consumer. Instead, we believe financial education is the key to empower the consumer and to help them take responsibility to appropriately manage their finances. In closing, we thank you for the opportunity to express our opinions related to the new CARD Act. Should you have any questions, you may contact me. our Compliance Officer, Karen Niederkohr,

Sincerely, Barry Jolette