

From: David
Subject: Reg Z - Truth in Lending

Comments:

Date: Sep 15, 2009

Proposal: Regulation Z - Truth in Lending
Document ID: R-1364
Document Version: 1
Release Date: 07/15/2009
Name: David
Affiliation: Non-Credit Union Comment
Category of Affiliation:
Address:

City:
State:
Country:
Zip:
PostalCode:

Comments:

Dear Madam/Sir: My comments on: Variable Rate changes & Minimum Payment increases Variable Rate changes The amendments to Regulation Z address variables rates. The amendments clearly state that a change in a variable rate "in accordance with a credit card agreement that provides for changes in the rate according to operation of an index that is not under control of the creditor and is available to the general public" does not require notice to the consumer and does not require that the consumer be given the choice to reject the change. The interim final rule also provides the reasoning for the amendment. However, Regulation Z does not clarify that a change in the variable rate due to a change in an index (such as the prime rate), is distinct from a change in how the variable rate is derived. For example: Card issuers will provide that a variable rate consists of a base rate plus prime. The prime rate will change over time, but the base rate is technically "fixed." It would make sense that a change in the "fixed" part of the rate would be considered a "significant change in account terms" and therefore would require that the consumer be provided notice and also be provided the option to opt out or reject the change. If you are in agreement that a change in the "fixed" portion of the rate would amount to a significant change, then the section in Regulation Z that defines significant changes should be revised to include this type of change. Although you may argue that there is no need to specifically address this type of change since it may be implicitly assumed to be included in the definition of a significant change, I ask that this issue be specifically addressed in Regulation Z. Whether you agree to disagree with my comment, I ask that you at the least address this issue in the amendments. Minimum Payment increases JPMorgan Chase is currently increasing the required minimum payments for certain consumers. These consumers appear to be persons that have

entered into low fixed rate balance transfer offers in the past. Although increasing the minimum payment (within the max) is expressly allowed in the new credit card law and in Regulation Z, and that the consumer is not required to be provided with the right to reject the increase (although notice is required), the increase in minimum payments appear to be drastic for some consumers. For example: If a consumer's minimum payment is \$200, and the payment is increased to \$500, this \$300 increase may be unrealistic for some consumers. The result is that the consumer may default, thereby permitting the card issuer to increase the consumer's APR. Now the consumer will have a higher monthly payment due to the increase in minimum payment, along with a higher monthly payment due to the increase in the APR (the APR can increase to 30% or even higher). A senior citizen on a fixed budget will certainly not be able to be current for 6 months to have the rate drop back down to the original rate (when the 6 month rules takes effect). Furthermore, even if the consumer can be current for 6 months, the card issuer is not required to reduce the minimum rate down to its original level. Although Regulation Z provides the reasoning behind card issuers being allowed to increase minimum payments and why consumers do not have the right to reject the minimum payment increases, Regulation Z does not address the unintended effects of increasing minimum payments. Whether card issuers increase minimum payments to genuinely encourage consumers to pay back their debt quicker, or whether card issuer increase the minimum payments to encourage a default and the triggering of an increase in APR, it would make sense that the issue be addressed in Regulation Z. It seems that the card issuers have a legal loophole to obviate the intent behind the enactment of the new law and its regulations. Furthermore, the new law and regulations do not provide the consumer with any recourse if the card issuers increase minimum payments and thereby successfully obviate the new law and regulations. Whether you agree to disagree with my comment, I again ask that you at the least address this issue in the amendments. David