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December 2, 2010

Jennifer J. Johnson, Secretary  
Board of Governors, Federal Reserve System  
20<sup>th</sup> Street & Constitution Avenue, NW  
Washington DC 20551

Docket No. R-1390

Service 1<sup>st</sup> Federal Credit Union appreciates this opportunity to comment on the Federal Reserve's proposal to amend Regulation Z, outlined in Docket No. R-1390. As a general matter, the Credit Union supports consumer protection and believes that consumers should receive adequate and fair disclosure of the terms and conditions of credit. Since 2008, the Federal Reserve and other financial service regulators have been adopting sweeping measures, creating an incredibly difficult and expensive compliance environment for credit unions. Accordingly, we have grave concerns about the proposed rules that impact credit insurance and debt suspension/cancellation products, the right of rescission and the refund of fees.

#### Credit Insurance

Credit unions are member-owned, nonprofit cooperative organizations. As such, credit union services are designed to provide value to our member owners. A credit union has no incentive to extend any product or service that could be contrary to the interests of a member/owner.

Service 1<sup>st</sup> has offered credit insurance to our members for over 20 years. Members are not forced to accept this coverage. Our members that decide to accept the coverage can enjoy the benefit of knowing that their financial lifestyle will be somewhat protected in the face of personal adversity. Throughout the years, there have been countless stories of members that have needed this coverage to assist them as a result of personal injury that will not allow them to continue to generate the household income that they had grown accustomed to. Without the coverage, they might have been faced with the loss of their home, auto or other personal possession. For those members who are fortunate enough not to need the coverage, the peace of mind that this product instills is immeasurable.

Since Service 1<sup>st</sup> already provides members with the opportunity to accept or deny the Credit Insurance, it appears that an additional disclosure would, in essence, state the same information, thus being redundant and counterproductive. Frequently, when government is faced with difficult times, it tends to overanalyze the issue. Many times the government solution is to create an additional disclosure and assume the issue will be rectified. At some point we all have to put some faith in the members' ability to make decisions on their own and not assume that they do not have the ability to do so without another disclosure.

The proposed series of credit insurance disclosures characterize such products in an unfair light. The drafts are paternalistic and would tend to ward a consumer away from a product that offers tangible benefits and peace of mind.

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Credit unions support consumer protection and disclosures or explanations of how a product works. It is then the consumer's job to judge the ultimate value of a product and decide whether to buy it. Such decision making should lie with the consumer, free from the taint of a government agency's "value judgment" of what is or is not an appropriate product or service.

#### Rescission Notices

Credit unions, as consumer-friendly lenders, generally support the policy of permitting a consumer to rescind a mortgage or home equity loan, particularly if the consumer discovers that the loan may not best serve her needs or create a financial burden. Accordingly, we support and appreciate the changes to the rescission notice that clarify a consumer's right to rescind including the detachable form.

In stark contrast, the extended right to rescind represents a minefield of technical Regulation Z "violations," that only foster litigation. The Federal Reserve should create a safe harbor for lenders, like credit unions, that offer conventional mortgages and home equity products. Extended protections consistent with the right to rescind may be appropriate in the case of lenders who deploy sharp and abusive practices and frequently change significant terms between the time of the application and loan closing. Credit unions are tired of carrying the compliance burden for bad actors and the commensurate compliance and legal exposures.

#### Refund of Fees

Consistent with the rescission argument above, we appreciate the merits of refunding fees if the borrower cancels a loan request in a timely manner. Unfortunately, the proposed timing rules are radically unclear and place a lender in a position of refunding fees out of an abundance of caution. The proposed rule appears to ignore legitimate and necessary costs such as appraisals and other processing costs. These rules add undue time and uncertainty to the mortgage or home equity process. In sum, credit unions support transparency with the aim of educating a consumer of the costs and value associated with a mortgage or home equity loan. In the end, the consumer has to make an informed decision and appreciate the value of the underlying credit. The refund rules as currently drafted create significant room for mischief and do not advance the interests of an informed consumer.

Service 1<sup>st</sup> appreciates the opportunity to provide input on these important issues.

Sincerely,



Jeffrey L. Balestrini  
VP of Lending