GREAT RIVER FCU

We Belong To You

CREDIT GREAT RIVER FEDERAL UNION

October 18, 2010

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Proposed Rule – Revisions to Reg Z – Credit Protection Products
Docket No. R-1390

Dear Ms. Johnson:

I am writing on behalf of Great River Federal Credit Union to oppose the changes to the credit insurance and debt protection rules. We believe that the proposed disclosures are misleading and will hurt not only our borrowers, but us as well. The tone of the disclosures is also unduly negative and alarmist. If a financial institution would use the same level of bias touting the benefits of credit protection it would be considered subjective and possibly unethical.

The main focus of the Truth in Lending Act and Regulation Z is to provide consumers with objective and appropriate information so that they may make educated financial comparisons and decisions. The disclosures and requirements of R-1390 as proposed do not align with this intended purpose of TILA and, in fact, may cause confusion to consumers when shopping for credit.

Many of our borrowers have found credit protection insurance to be a very beneficial product. It helps them pay off a loan or make payments in time of need. It provides a valuable monetary benefit, as well as peace of mind knowing that the debt will be taken care of if the borrower dies, or becomes disabled or unemployed. It also helps protect borrowers' credit ratings, which is invaluable when it comes to managing their finances. We have received comments from numerous borrowers who have shown much appreciation for the protection.

When we offer credit protection to our borrowers, we do so in a responsible manner, designed to follow the law and fully inform our borrowers about the product. We have always provided disclosures to them, and we do not object to providing new or revised disclosures, as long as such disclosures are reasonable and accurate.

It is also a very beneficial product for us as well. Having credit protection on our loans provides us extra assurances that the loans will be paid on time. This decreases our charge-offs and loan losses. The product also provides us with a valuable source of non-interest income. All of this plays a vital role in the safety and soundness of our institution.

We believe the proposed disclosures are adversely biased, inaccurate and misleading to consumers. In addition to the content of the disclosures, we have two objections to the proposal generally.

Faulty consumer testing of the disclosures. First, the Board has based the new disclosures on consumer testing. However, they were tested only by ten consumers in the first round of testing, and eight consumers in the second round of testing. This hardly seems like a representative sample large enough to form any valid conclusions, especially considering that these disclosures will be provided to millions of consumers each year.

The Board is overreaching. Second, the proposed disclosures go beyond the purpose and language of the Truth-in-Lending Act. This is also true for the proposed rule that would include premiums and fees in the APR on mortgage loans. The language of TILA allows premiums and fees to be excluded from the APR if the cost is disclosed, the consumer affirmatively elects coverage, and if "coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit".

The Board must prescribe regulations to "carry out the purpose" of the Act. But we question how the regulations could carry out the purpose of the Act when the Act itself specifically allows exclusion of credit insurance from the cost of credit. The Board's proposed rule that the cost of credit protection be included in a mortgage loan's APR directly contradicts the plain language of TILA.

Also, including the cost of credit protection (as well as the other additional fees that the Board is proposing) in the APR for closed-end mortgage loans will hurt consumers. It will skew the APR and will, by definition, force a consumer to compare apples to oranges when comparing loans between lenders. The consumer will have no way of knowing which products and/or fees are in one lender's APR, and which are in another's. The Board's own research has continually shown that consumers do not understand the effective APR. The Board should eliminate all fees from the APR, similar to what it has done for credit card statement requirements. It should not adopt the all-inclusive APR.

In conclusion, we believe the additional disclosures will hurt us and our borrowers. They are misleading and do not further the purpose of TILA. These disclosures will scare consumers away from buying a product that could have great benefit to them, and it will hurt the safety and soundness of our institution.

We ask the Board to withdraw the credit protection proposal or, alternatively, to reconsider more balanced, objective disclosures.

Sincerely,

Deb Hofmann, Compliance Director
Great River Federal Credit Union