



March 28, 2005

Jennifer J. Johnson, Secretary  
Board of Governors  
Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551  
Attn: Docket No. R-1217

Re: Advanced Notice of Proposed Rulemaking Reviewing Open-End Credit Rules

Dear Madams and Sirs:

Iowa Bankers Association (“IBA”) is a trade association representing nearly 95% of 400+ banks and savings and loan associations in the State of Iowa. We appreciate this opportunity to comment on the Advanced Notice of Proposed Rulemaking (ANPR) reviewing open-end credit rules under the Truth-In-Lending Act (TILA). In developing our comments contained herein, IBA invited its member banks to respond to questions posed in the ANPR.

Without a doubt, there have been dramatic changes in consumer credit markets, products and technology since the TILA was enacted and then revised in 1980. The number and variety of open-end product offerings have been significantly expanded, the market for open-end consumer credit products is far more competitive, and the number of consumers who are eligible to receive open-end credit has also dramatically increased.

Keeping in mind Congress’ primary purposes for the TILA: (1) to provide a meaningful disclosure of credit terms to enable consumers to compare the various credit terms available in the marketplace more readily and avoid the uninformed use of credit; and (2) to protect consumers against inaccurate and unfair credit billing practices; the IBA offers these comments in relation to the questions posed in the ANPR.

#### **Comments Related to Changing Initial Account Disclosure and Periodic Statements.**

As noted in the ANPR, creditors have been given great flexibility in designing account-opening, periodic statement and other open-end disclosures. Uniformity and simplicity in disclosure appears to be a desirable goal, but to the extent it is achievable is highly questionable. Open-end credit plans vary a great deal in their terms, features and operational procedures. A one size fits all approach (“executive summary” or model form) applicable to all plans and beneficial to consumers is simply not achievable with the amount of information now required be included in the initial disclosures.

Keeping in mind the primary purpose of TILA, to provide a meaningful disclosure of credit terms to enable consumers to compare the various credit terms available in the marketplace, it may do us all well to reflect on the “less is more” concept. There is little doubt consumers are overwhelmed with the magnitude of information provided to them in disclosures provided at

account opening. For example, card issuers can write paragraphs to explain terms of the card in the “Schumer” box. The end result is a lengthy Schumer box disclosure which was intended to be “quick reference” (or “executive summary”) of sorts for consumers.

Some of the information provided to consumers in the initial disclosure provides little useful information to them, such as the methods of computing balances, grace periods, and statements regarding charge card payments. As a result, quite often the disclosures are not reviewed by consumers in depth, if at all. If “Schumer box” and initial disclosures under the open-end credit disclosed only those key terms most important to most consumers (such as the annual percentage rate, the fact a rate is variable, if applicable, a listing of fees related to the issuance or availability of the plan, as well as other transaction fees or fees commonly incurred by cardholders such as cash-advance fees, balance-transfer fees, etc.) along with a statement that other terms may affect the consumer’s use of the plan and that the consumer should review all of the terms of the plan agreement, the consumer might actually review the Schumer box and early disclosure and they may become the shopping tool Congress intended.

### **Comments Related to Content of Disclosures Enhancing Consumer Understanding of Cost of Credit.**

Consumers, creditors and regulators would all benefit from increased clarity as to which fees are or are not finance charges under Reg. Z’s open-end credit rules. Again, it would seem consumer and creditors alike would benefit from a “keep it simple” methodology related finance charge and APR calculation methods. If the APR were to only include those fees associated in opening the plan and then charges that are based on the amount and duration of credit outstanding, the APR calculation would be more meaningful to consumers. Many creditors struggle to understand the difference between an effective or historical APR and the disclosed APR based upon the periodic rate. Fees that are included in the historical APR calculation, but are not based on the duration and amount of credit, such as cash advance fees, skew the APR and confuse consumers.

Clearly, consumers need to be made aware of other fixed fees associated with products and services available with their account (such as cash advance fees, card replacement fees, expedited payment fees, etc.) as well as “penalty fees” they may incur for misuse of the account (such as “over limit fees” or “late payment fees.”) If the fees are clearly disclosed in the original account agreement and clearly detailed on the periodic statement when assessed, the consumer will have a better understanding of them.

In addition, if a credit card plan includes various promotions under the same agreement, such as low promotional rates for certain purchases or 0% APR for cash advances, it would seem reasonable the cardholder should be made aware of how payments made on the account will be applied to outstanding balances. Such disclosure however, should be made in the plan agreement. To detail the various payment allocation methods on the periodic statement would be redundant and may be confusing to the consumer if he/she does not utilize the various financing options.

It appears questions 28 through 33 address issues that might be more effectively confronted through consumer educational efforts rather than a regulatory framework. It has become clear that current disclosures provide consumers with an overwhelming amount of information, much of which is not even reviewed by most consumers. Adding to these all-ready lengthy disclosures to provide more information about balance computation methods, the effects of making only minimum monthly payments or providing an amortization schedule would simply be an exercise

in futility. Regulator and creditor time and financial resources would be more wisely invested in consumer education efforts regarding responsible and informed use of credit programs. A prime example of effective educational effort is the FDIC's "Money Smart" program.

**Comments Regarding Expanding Substantive Protections for Open-End Accounts.**

Regulation Z currently provides protections for consumers in its error resolution processes. In addition other federal and state laws (such as Unfair and Deceptive Trade Practices and state usury laws) provide protections related to subprime or predatory lending. The addition of more protections under Reg. Z seems duplicative and counter-productive.

With that being said, it is imperative that the FRB ensure Reg. Z's current protections include the new devices and technologies used to access credit under open-end plans. Reg. Z's protections regarding merchant disputes, unauthorized use of the account, and the prohibition against unsolicited issuance should cover all access devices to the credit line, including convenience checks. The current exclusion is confusing for merchants, consumers and creditors alike. Consistency in error resolution processes will lead to greater understanding and effectiveness of the processes.

While the IBA supports and appreciates the FRB's efforts to re-evaluate the effectiveness of regulations on an ongoing basis, we urge the FRB to carefully study the perceived consumer benefits of broad-reaching changes to TILA's open-end credit rules prior to enacting such changes. A fundamental change in the way open end TILA disclosures are presented would obviously, result in substantial expense to creditors. Every open-end credit agreement would need to be revised, reviewed by legal counsel and reproduced, programming expenses would be significant and training costs would be enormous on a nationwide basis. Such costs are ultimately borne at least in part, by consumers. Before any changes are mandated, all parties involved (creditors, consumers and regulators) would greatly benefit from a careful study of consumer's increased or decreased understanding of their credit agreements resulting from the changes.

Thank you for the opportunity to comment on the Advanced Notice of Proposed Rulemaking reviewing the open-end credit rules. If you have any questions related to my comments, please feel free to contact me at (800) 532-1423 or at [rschlatter@iowabankers.com](mailto:rschlatter@iowabankers.com).

Sincerely,



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Comment Letter  
ANPR re: Open- End Credit  
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