



VIA ELECTRONIC MAIL

December 16, 2005

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

**Re: Advance Notice of Proposed Rulemaking
Regulation Z Open-end Credit Rules
Docket No. R-1217**

Ladies and Gentlemen:

HSBC Consumer Lending submits this comment letter in response to the second Advance Notice of Proposed Rulemaking ("ANPR") issued by the Board of Governors of the Federal Reserve System (the "Board"), regarding the commencement of a review of the open-end (revolving) credit rules of the Board's Regulation Z ("Reg Z"), which implements the Truth in Lending Act. HSBC Consumer Lending (USA) Inc. ("HSBC Consumer Lending"), an HSBC North America Holdings Inc.¹ business, originates and purchases unsecured loans and loans secured by real estate through its HFC and Beneficial subsidiaries.

HSBC Consumer Lending commends the Board for combining this second ANPR relating to changes required by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (the "Bankruptcy Act") with its earlier ANPR regarding the open-end credit rules of Reg Z and appreciates this opportunity to supplement our earlier comments.

Our comments are limited to the disclosures for home-secured loans that may exceed the dwelling's fair-market value.

Q102: What guidance should the Board provide in interpreting when an "extension of credit may exceed the fair-market value of the dwelling?" For example, should the disclosures be required only when the new credit extension may exceed the dwelling's fair market value, or should disclosures also be required if the new extension of credit combined with existing mortgages may exceed the dwelling's fair-market value?

¹ HNAH is a registered financial holding company with various U.S. banking and non-banking subsidiaries that engage in revolving consumer finance transactions.

Guidance of how to interpret when an “extension of credit may exceed the fair-market value of the dwelling” would be helpful. The challenge is that creditors may not be able to ascertain, at the time an advertisement is made or at the time an application is taken, whether the new loan will cause the fair market value of the dwelling to be exceeded.

For example, at the time of advertisement or application, the creditor will not know the fair market value of the dwelling. The creditor will not order a product valuation, such as an appraisal, until the application is completed. Then it can be a week or two before an appraisal is obtained. In addition, the customer may increase or decrease the amount of credit requested at any point in the process. Lastly a creditor will not know, with any specificity, the amounts outstanding on mortgages held by other creditors until a payoff statement is obtained from those creditors. All of these factors will be in flux until the closing date.

As a result, we recommend that the Board only require the disclosure for advertisements that are specifically marketing home equity loans that exceed the value of the property. Likewise, we also recommend that the disclosure be provided to the customer at the time of the loan closing instead of at the time of application.

Q103: In determining whether the debt “may exceed” a dwelling’s fair-market value, should only the initial amount of the loan or credit line and the current property value be considered? Or should other circumstance be considered, such as the potential for a future increase in the total amount of the indebtedness when negative amortization is possible?

In order to ensure consistency among creditors and accuracy in disclosures, we advocate a simple approach that does not attempt to address possible circumstances that may or may not occur in the future. If the disclosure is made at the time of application, the creditor should only be required to consider the amount of the loan or credit line applied for by the customer and the current property value stated by the customer in determining whether the debt “may exceed” a dwelling’s fair market value. If the disclosure is provided at closing, creditors should be allowed to rely on whatever source they use for determining the fair market value of the property.

Q104: What guidance should the Board provide on how to make these disclosures clear and conspicuous? Should the Board provide model clauses or forms with respect to these disclosures?

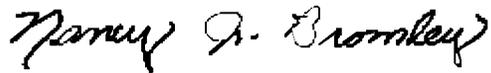
Model clauses would add value and result in greater consistency in disclosure among creditors. We believe that model clauses should not be required, but should create a safe harbor for those creditors that opt to use the model clause. It should be clear from the regulation that failure to use the model form does not create a presumption that the creditor is in violation of the regulation. We do not believe that specific guidance on how to make the disclosures clear and conspicuous is necessary.

Q105: With the exception of certain variable-rate disclosures for closed-end mortgage transactions, disclosures generally are provided within three days of application for home-purchase loans and before consummation for all other home-secured loans. Is additional compliance guidance needed for the Bankruptcy Act disclosures that must be provided at the time of application in connection with closed-end loans?

For the reasons enumerated in the response to Question 102 above, we strongly advocate that the Board require the disclosure at the time of closing, and not at the time of application.

Once again, we appreciate the opportunity to comment on the ANPR. If you have any questions concerning our comments, or if we may otherwise provide assistance with respect to this issue, please do not hesitate to call me directly at (847) 564-6321.

Sincerely,

A handwritten signature in cursive script that reads "Nancy J. Bromley".

Nancy J. Bromley
General Counsel
HSBC Consumer Lending (USA) Inc.