PSCU FINANCIAL SERVICES®

SHARED VISION. SHARED VALUES.™

October 12, 2007

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th St. & Constitution Ave., NW
Washington, DC 20551

Re: Docket No. R-1286 - Truth in Lending

Dear Ms. Johnson:

PSCU Financial Services, Inc. ("PSCU") is the nation's largest Credit Union Service Organization. Established in 1977, PSCU provides to financial institutions a broad array of cost-effective, high quality financial services that include processing and other services for credit cards, debit cards, prepaid cards, ATMs, bill payment, lending and contact center solutions. As a cooperative, PSCU is owned by over 500 member federal and state credit unions ("Members") of all sizes. Our Members issue credit cards to their member consumers. The Company is an advocate for its Members and promotes credit union industry growth initiatives.

In reviewing the proposed changes to Regulation Z (Truth in Lending) ("Reg Z"), PSCU performed an internal review of its own processes impacted by these changes and we surveyed several of our Members for input.

We appreciate the opportunity to provide comments on the proposed changes to Reg Z. We believe that it is imperative to improve the operation of the credit industry. We believe that many of the changes proposed by the Federal Reserve Board ("FRB") are worthwhile. However, we believe other proposed revisions to Reg Z provide little to no benefit to consumers while substantially increasing the compliance burden and other costs for issuers. These compliance and other costs will ultimately be passed on to consumers as higher rates and fees. Potentially, many small credit unions will struggle with the burdens imposed by the proposed changes. Overall we believe that the prominent disclosure of a credit union's credit card rates, terms and overall program would make it easier for the consumer to determine the credit union offers a more favorable and consumer-friendly credit card program than its competitors. Below are our comments on the changes.

CREDIT CARD APPLICATIONS & SOLICITATIONS

**Disclosure Changes**
We have concern about increased costs to issuers in order to meet space requirements, font size and placement of disclosures on printed material. The increased size of the disclosure, printing and postage will all raise the cost of "Acquisition" programs. These programs assist credit unions to attract new credit card account holders and offer a significant service to consumers. The costs of these programs for our Members are already high, relative to the rate of response they receive. We believe that with these changes, some issuers would stop offering credit cards because of these increased costs to comply.

Moreover, consumers will receive detailed information in the account opening document, so there is no need to duplicate the disclosures in applications and solicitations. Applications are more widely distributed and have a low response rate, so the industry and consumers would be better served if the additional disclosures were concentrated at the account opening stage.

**Web site reference**
We believe that the reference to the FRB's web site is a worthwhile change. We urge the FRB on its web site to provide consumers with valuable information regarding financial services, including information regarding the mission and effectiveness of credit unions in offering financial services including credit services to their members.

ACCOUNT OPENING DISCLOSURE TABLE

As stated in the previous section, consumers will receive detailed information in the account opening document, so we believe there is no need to duplicate the disclosures in applications and solicitations. Applications are more widely distributed and have a low response rate, so the industry and consumers would be better served if the additional disclosures were concentrated at the account opening stage. However, if the FRB requires detailed disclosures in the applications and solicitations, we believe that issuers should be given an option to eliminate those same disclosures from their account agreements, given the cost of duplicating the disclosures. Issuers may decide to continue to include the disclosures in the agreements for contractual reasons, but issuers should be given the option in case the issuer is able to otherwise address the contractual concerns.

PERIODIC STATEMENT

**Fees and interest costs**
We believe it is appropriate to disclose (1) total fees and (2) total interest imposed for the billing cycle in monthly statements. In addition, many issuers disclose total fees and total interest on an annual basis. Accordingly, at least for those issuers that disclose total fees and total interest on an annual basis, we believe that it is information overload and confusing to also disclose year-to-date totals. The additional information will be confusing since year-to-date total purchases, cash advances, and balances maintained will not be disclosed. Consumers will have no relevant information to compare to the year-to-date total interest charges and fees and therefore those year-to-date disclosures will only serve to confuse consumers. We believe that the costs of complying with the table requirements, when coupled with the other costs of complying with the new Reg Z requirements, would cause many issuers to exit the credit market or pass along the additional costs to consumers. Moreover, the increased customer confusion will increase creditors' costs relating to consumer complaints and inquiries. Accordingly, we do not believe that the benefit of requiring the year-to-date table of total interest charges and fees outweighs the costs of doing so.

**Effective APR**
We strongly believe the effective APR should be eliminated.

Consumers do not understand how the interest rate APR differs from the effective APR. They do not understand the calculations underlying the effective APR and which fees are included. They do not understand why the effective APR is higher than the APR originally disclosed at account opening. They do not understand how the effective APR is driven primarily by consumer behavior (e.g. use of ATMs and charging over one's credit limit). The effective APR provides no meaningful benefit to consumers. PSCU's experience in our contact center has been that it is very difficult, and often impossible, to explain the effective APR to consumers.

Confused consumers will make irrational decisions (including seeking credit elsewhere at a rate higher than the APR the consumer would have otherwise received from the issuer) and the result may be higher costs for consumers. This is particularly true where the consumer will be comparing the effective APR on their credit card to an interest-only APR on a non-open-ended credit product. Those other products do not disclose an effective APR comparable to the Reg Z effective APR, so a comparison of rates is misleading. A prime example of this is a consumer trying to compare a credit card to a debit card – rates and fees such as cash withdrawal transaction fees will not be disclosed the same way on both cards, making comparison difficult. Another result of consumers' irrational decisions could be a chilling of credit card usage, which would drive up the costs for the remaining consumer users.

Even if a consumer understands the effective APR, the disclosure does not provide any more information than is already provided in the disclosure of the total dollar costs of fees and interest for the billing cycle. In addition, the effective APR is inherently arbitrary and inaccurate because it amortizes the cost of credit over only one month even though many consumers take several months or longer to repay their balances.

If the FRB determines to maintain the effective APR, or fee-inclusive APR, we do not believe that all foreign transaction fees and ATM fees should be included in the fee-inclusive APR. Foreign transaction fees are imposed on an issuer by Visa, MasterCard and the other associations. ATM fees are imposed on an issuer by the ATM network or ATM-owning financial institution. Many issuers impose these fees on consumers merely as a pass through of the costs imposed on the issuer. If the issuer merely passes through a cost, we do not believe that it truly is a creditor-imposed fee impacting the effective cost of credit and therefore adding it to the fee-inclusive APR is misleading. Unlike the other fees included in the fee-inclusive APR, these fees are not created by the issuer as a way to extract margin from a consumer, so it would be misleading to include them in the fee-inclusive APR. On the other hand, some issuers do mark up these third-party charges. We believe that any mark up on foreign transaction fees and ATM fees should be included in the fee-inclusive APR.

If the FRB determines to maintain the effective APR, or fee-inclusive APR, we believe that the description of charges to be included in the fee-inclusive is too general. The charges would include "… (5) charges based on the account balances, account activity or inactivity, or the amount of credit available." We do not believe this language provides sufficient clarity to issuers and consumers as to what fees and charges are to be included and what fees and charges can be excluded. The words in the clause are subject to numerous interpretations and, in particular, the term "account activity" is highly ambiguous. We urge the FRB to clarify the meaning of subsection (5).

**All Like Transactions Grouped Together**
We suggest giving issuers the option to eliminate the headings for the various types of transactions. The headings add lines to the statement, which increases an issuer's costs. The type of transaction is self-explanatory based on the "description of transaction or credit." The heading may add cost without any apparent benefit to consumers. If the FRB disagrees, we respectfully request that the FRB at least test this concept in the future consumer testing.

**Cutoff time and Late Payment Due Date**
Late Payment : Many issuers disclose the late payment due date and late payment fee in the body of the periodic statement. We do not believe it is necessary to re-disclose this information in a table format. Adding this table to the periodic statement will make the statement longer. If other tables are also added, it could grow from one 8 ½" X 11 two-sided page into two pages, thereby doubling the number of pages printed and potentially increasing postage and other costs. We believe that the costs of complying with the table

requirements, when coupled with the other costs of complying with the new Reg Z requirements, would cause many issuers to exit the credit market or pass along the additional costs to consumers. The increase in cost to produce the statement and mail it will not be entirely absorbed by the issuer, particularly small financial institutions. Most if not all of the costs will be passed along to consumers. Accordingly, we do not believe that the benefit of requiring the table outweighs the costs of doing so.

Cutoff Time : We believe that disclosing a single cutoff time will be confusing and misleading for several reasons. First, issuers will actually have multiple cutoff times because payments can be made either online, by person at a branch, by telephone, or by mailing to a lockbox. Those payment channels will have different processing times and therefore different processing cutoff times. An issuer would be forced to disclose the earliest cutoff time in its periodic statements, which would most likely be the lockbox cutoff time. This time would be misleading and confusing to consumers, since one or more payment channels would in fact accept payments later than the disclosed time. These later cutoff times currently are a benefit to consumers; it is inadvisable to eliminate this benefit in order to standardize on a single cutoff time. Second, a single cutoff time would not assist consumers. The reason a time of day can be important is if the consumer is looking to pay on his or her own, either in person, by phone, or online, and the consumer may be running late. The disclosed time will likely bear no relation to the time cutoff for the consumer to pay on his or her own. The disclosed time will likely relate to the lockbox processing and a consumer has no influence over the time of day that a payment is made to a lockbox. Lastly, the cutoff time will be misleading to many consumers because an issuer will be forced to use a single time zone in its disclosure. Some consumers in other time zones will be confused about the cutoff time in their time zone.

**Minimum payments**

We do not agree with the FRB's position that issuers should be encouraged to provide actual repayment disclosure on their periodic statements. Achieving this functionality is extremely difficult. The development costs to issuers will be significant and we do not believe it is necessary to disclose this to every consumer on a monthly basis. If an issuer is able to develop this functionality, the issuer should not be held to have "guaranteed" the repayment calculations to the consumer. We suggest that Reg Z be changed to specifically provide that an issuer can provide the repayment information to a consumer with language that it is only the issuer's "good faith estimate" or to the effect that it is only "approximate".

We do support the FRB's proposal giving issuers the flexibility to disclose the warning statement and the toll-free telephone number instead of the actual repayment information, and the flexibility to implement either a consumer input system or an issuer-database output system.

CHANGES IN CONSUMER'S INTEREST RATE & OTHER ACCOUNT TERMS

**Timing**
The proposed Reg Z changes with respect to applications, solicitations, account agreements, and periodic statements provide for significantly increased disclosures to consumers and more prominent displays of those disclosures. Based on the fact that consumers will be receiving such disclosures throughout their relationship with the credit card issuer, we do not believe it is necessary to extend the length of time for a change of terms notice. While 15 days may not have been enough time for a consumer to react to a change in the past, we believe that 15 days will be sufficient given (1) the increased disclosures the consumer will receive prior to the change, which will enable a consumer to be more informed about his or her existing credit relationship, and (2) the speed and increasing activity of credit information on the Internet, which enables a consumer to receive and evaluate credit information easier and faster than in the past.

We believe that a 15 day notice of change in terms should be sufficient and is fair, but, if the FRB believes that consumers should have longer notice, we believe that the maximum notice should be 30 days. First, as stated above, 30 days would absolutely be sufficient given (1) the increased disclosures the consumer will receive prior to the change and (2) the speed and increasing activity of credit information on the Internet. Second, from a practical standpoint, many issuers currently give consumers a 30 day notice because the issuer includes the notice with the periodic statement. The requirement to provide 45 days notice would result in an actual notification of 60-90 days for those issuers who provide the notice with the periodic statement. This result is clearly an operational burden on issuers, given the speed with which market conditions can change. For the foregoing reasons, we believe that 30 days should be the maximum notice period for a change in terms.

As indicated in the next section entitled "Penalty rates", the FRB could consider a notice period for penalty rates that varies from 15 to 30 to 45 days depending on the grace period offered by the issuer.

Finally, we believe that if the credit score of a consumer deteriorates, the issuer should be able to quickly increase the rate to that consumer. In the situation where a consumer's credit score has deteriorated, we believe that a 15 day notice should be sufficient and fair. If the FRB believes that consumers should have longer notice, we believe that the maximum notice should be 30 days. Statistically-validated models confirm that there is a different risk for a consumer with deteriorating credit and a creditor should be able to reprice accordingly. Issuers that are unable to reprice quickly will face increased costs. Issuers will pass these increased costs to consumers; however, the costs may be assessed against all consumers, unlike the current practice where the cost burden is only borne by those consumers whose credit is deteriorating. We believe this result would be unfair to all other consumers.

**Penalty rates**

We believe it is inappropriate to expand the events triggering advance notice to include increases triggered by default or delinquency. For four reasons, it is unnecessary and inadvisable to give consumers any advance notice of a rate change due to the consumer's behavior which created the default or delinquency.

First, the consumer received notice of what behavior would create a default or delinquency at the time the account was opened. At that time the consumer signed an account agreement, and subsequently the consumer received the benefit of that agreement in the form of the extension of credit, and therefore the consumer should be bound by the terms of the agreement including the agreed-upon default/delinquency events and resulting penalty rates. To require advance notice is to in effect nullify the contractual agreement.

Second, since the triggering events are set forth in the account agreement, the issuer is not changing a term, but merely implementing the agreement. There truly is no change of terms to the agreement between the consumer and the issuer.

Third, the consumer already has some protection because many financial institutions (including our Members) have a "grace period" of 1-2 missed payments occurring 2 times every twelve months. In addition, often the penalty rate is not triggered for late payments, only for actual missed payments. Rather than requiring advance notice to include increases triggered by default or delinquency, the FRB should consider requiring a grace period of at least 1 missed payment to regulate abusive lenders who do not provide <u>any</u> grace period. Alternatively, the FRB could incentivize issuers to offer extended grace periods by linking the grace period to the required penalty rate notice period. For example, three tiers could be established: (1) an issuer that offers a consumer no grace period for missed payments or that imposes the penalty rate based on late payments would be required to give 45 days notice of the penalty rate; (2) an issuer that offers a consumer a grace period of one missed payment would be required to give 30 days notice of the penalty rate; and (3) an issuer that offers a consumer a grace period of two missed payments would be required to give 15 days notice of the penalty rate. We believe this is a fair and balanced approach.

Finally, we note that the 45-day notice requirement will increase issuers' costs. Issuers will pass these increased costs to consumers; however, the costs may be assessed against all consumers, unlike the current practice where the cost burden is only borne by those consumers who are in default/delinquency. We believe this result would be unfair to non-defaulting consumers.

**Format**
Issuers have limited space on the periodic statements they send to consumers. Many issuers have several versions of a periodic statement. Issuers have incurred very significant costs to develop and maintain their statements. Adding a table or tables to a statement would be very costly. We believe that the costs of complying with the table requirements, when coupled with the other costs of complying with the new Reg Z requirements, would cause many issuers to exit the credit market or pass along the additional costs to consumers. Moreover, we do not believe that the table requirement will reduce customer confusion and misunderstanding; in fact, we believe the opposite – customer confusion will increase, which will increase creditors' costs relating to consumer complaints and inquiries. Accordingly, we do not believe that the benefit of requiring tables outweighs the costs of doing so.

Many issuers include a message to consumers within the periodic statement immediately before the list of transactions. The message notifies the consumer of a change in terms. We believe that a statement message in this location would serve the same purpose and have the same effectiveness with consumers as disclosure in a table format. We have provided services to issuers using such messages with millions of consumers and have not received complaints that the messages were confusing or otherwise ineffective. We believe that Reg Z should permit either disclosure in a table or disclosure via a message immediately before the list of transactions. We respectfully request that the FRB allow this flexibility or at least test this concept in the future consumer testing.

Adding a table to a pamphlet or letter would often be much less costly than adding the table to a statement. Since the consumer testing performed by the FRB indicated that consumers would be attentive to information in tabular format, we urge the FRB to allow issuers to insert tables on either a statement or a pamphlet or a letter. We respectfully request that the FRB allow this flexibility or at least test this concept in the future consumer testing.

<u>OTHER DISCLOSURES AND PROTECTIONS</u>

**"Open-end" plans comprised of closed-end features**
Credit unions and other issuers have used multi-featured open-end lending for vehicle and other loans, and consumers have found it is a convenient way to borrow from their credit union. This approach has worked well for over 25 years. The proposed change would limit the abilities of issuers such as credit unions to offer low-cost alternatives to numerous high-cost lending products including "payday" loans. Rather than helping consumers, the proposed change would hurt consumers by eliminating a valuable lower-cost alternative. We are not aware of any abuses involving multi-featured open-end lending, so we do not believe there is a benefit to consumers that outweighs the additional costs to issuers. We strongly urge the FRB to eliminate this proposed change.

**Checks that access a credit card account**
We have major concerns about how issuers could comply with the proposed requirement of having the applicable rate appear next to the checks that access the credit card account:

1. All cardholders do not receive the same rate and/or fees even if they receive checks at the same time. Convenience check printing would be done in even smaller batches, significantly raising the production costs.
2. The cardholder may not use the check until sometime after they've received it, so the rate that was provided at account opening would differ from the rate at the time the convenience check was issued, and could differ again at the time the cardholder used the check. We do not know how issuers can meet this proposed disclosure requirement because of the difficulty determining the exact interest rate at the time the convenience check is used.
3. PSCU believes that some issuers have abused consumers by charging high fees for cash advances and have given convenience checks a bad name. Convenience checks are a great tool for most consumers. Because many financial institutions including our Members do not generate large transaction fees from convenience checks, if the cost to comply with the use of these checks becomes too great, it is the consumers who would lose a valuable financial tool.

In summary, issuers have incurred very significant costs to develop and maintain their convenience check systems. Adding the disclosure requirement to the check would be very costly and would be a large operational burden. We believe that the costs of complying with the requirement would cause many issuers to exit the credit market or pass along the additional costs to consumers. Moreover, we do not believe that the requirement will reduce customer confusion and misunderstanding; in fact, we believe the opposite – customer confusion will increase, which will increase creditors' costs relating to consumer complaints and inquiries. Accordingly, we do not believe that the benefit of requiring the disclosure with the check outweighs the costs of doing so.

An alternative that we believe the FRB should implement is to give issuers the option to either: (1) on the attachment next to the check, refer the consumer to the rate and fee as disclosed on the consumer's periodic statement; (2) on the letter that accompanies the check, disclose the rate and fee in 16 point font; (3) on the attachment next to the check, disclose the rate and fee; (4) on the letter that accompanies the check, disclose a toll-free number in 16 point font and disclose that the consumer can call the toll-free number to learn the rate and fee that would apply to the check; or (5) on the attachment next to the check, disclose a toll-free number and disclose that the consumer can call the toll-free number to learn the rate and fee that would apply to the check. We believe that allowing the issuer to choose among these alternatives serves to better inform the consumer and balances the huge operation burden imposed on the issuer.

If the FRB believes that this disclosure is needed, we urge the FRB to allow issuers the same latitude with respect to variable rates that is allowed in the change-in-terms context. There the variable rate need not be disclosed if the formula (e.g. Prime rate plus 4%) has not changed; disclosure is only required if the issuer changes the formula. In the check context, if the original formula in the account agreement has not changed, the issuer should not be required to disclose the variable rate with the check.

**Implementation**
The proposed changes to Reg Z are substantial. Issuers and processors will spend large sums of money to implement the changes. The operational, system programming, and quality control manpower and other resources needed to design, engineer and implement the changes are on a vast scale. Moreover, issuers and processors have substantial numbers of existing applications, inserts, account agreements, etc. For all of these reasons, we respectfully request an implementation schedule of 24 months for any new Regulation Z Truth in Lending requirements so that the changes can be done properly, with the least amount of disruption and with the cost impacts minimized. However, we would defer to the FRB's judgment whether those few changes dictated by the Bankruptcy Act should follow the same 24 month deadline or instead follow the 12 month deadline suggested in the Bankruptcy Act. If the latter, we would urge the FRB to allow 18 months to implement the changes dictated by the Bankruptcy Act if the FRB has any flexibility in the implementation time frame.

PSCU appreciates the opportunity to comment on the proposed changes to Regulation Z. If you have any questions about our comments, please contact Steve Salzer, General Counsel, at (727) 561-2227.

Respectfully submitted,

PSCU Financial Services, Inc.

David J. Serlo

David J. Serlo,
President and CEO