

Illinois Credit Union League

P.O. Box 3107
Naperville, Illinois 60566-7107
630 983-3400

VIA E-Mail: regs.comments@federalreserve.gov

October 12, 2007

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

Re: Docket Number R-1286

Request for Comment on Proposed Amendments to Regulation Z and the Staff
Commentary to the Regulation regarding Open-End Credit other than HELOCS.

Dear Ms. Johnson:

We are pleased to respond on behalf of our member credit unions to the proposed amendments to Regulation Z and the staff commentary on the regulation regarding open-end credit not secured by a home. The Illinois Credit Union League represents over 400 federal and state chartered credit unions.

It is clear from the supplementary information accompanying the proposal that FRB staff has exercised diligence and thoughtfulness in crafting the proposed amendments to the Rule, the staff commentary, and the model disclosures. We have long believed that a reduced number of disclosures may actually result in a greater likelihood that the consumer may review the disclosures and result in greater consumer awareness of the most important provisions of the loan or line of credit.

We believe the account opening table, the model change of terms notice, and the authority to provide disclosures of certain fees orally or in writing prior to imposition rather than in the account opening disclosures indicates a welcome flexibility by FRB and staff.

The majority of the proposed changes address improved disclosures or issues where consumers have been harmed by failure to adequately disclose onerous lending provisions. However, we cannot discern a reasonable rationale for the proposed amendment of the staff commentary that would prohibit the use of open-end plans to make advances secured by automobiles and other property of the consumer. These

programs were created by credit unions more than 30 years ago and were specifically sanctioned by the initial Official Staff Commentary issued more than 25 years ago. To our knowledge, there have been few if any complaints by credit union members or consumer groups about the plans. Credit union loan rates are typically as low as or lower than other financial institutions and credit unions are less likely to impose fees in connection with such loans. Members of credit unions tend to have multiple loans at a credit union and making such loans under a single open-end loan plan with the same terms applicable to all advances under the plan (other than the APR and minimum payment) is beneficial to the member.

The Board is concerned that open-end secured loans are more in the nature of a closed-end loan and that the initial (account-opening) open-end disclosures do not include disclosure of the number of payments and the dollar amount of the finance charge. In fact, while not required by Regulation Z, loan repayment schedules for open-end advances secured by automobiles and other collateral are usually determined based on a specific number of months and the term of the loan is disclosed on the portion of the initial (account-opening) disclosure containing the rates and minimum monthly payment. While the dollar amount of finance charge is not disclosed, the amount of finance charge is disclosed on each periodic statement. We believe the APR and fees are much more important to consumers in shopping for credit than the total finance charge. While many consumers know the APR, the monthly payment, and the fees that may be imposed on their existing loans, very few know even the approximate amount of the total finance charge.

In addition, the requirement that periodic statements must be issued at least quarterly for open-end accounts, including (among many other disclosures) the APR, the amount of interest, the required payment, and any fees imposed insures that consumers are constantly updated and reminded of the terms of the advance. By contrast, there are no required disclosures for a closed-end loan after the loan is consummated.

Until the mid-1980s, 90% of credit unions were employer-based and sought ways to expedite service to members in plants that did not have a credit union office and other remote locations. Initially open-end plans were adopted to provide unsecured lines of credit to members but credit unions quickly realized that members in remote locations could be provided with access to secured credit more expeditiously if the credit provided was based on a master open plan signed by the member. Thereafter, a member could obtain advances by submitting an advance request voucher or oral request for credit and the funds were immediately dispatched by check or by a credit to the members share draft (checking account).

While subaccounts secured by automobiles or other personal property are typically not self-replenishing as the secured advance is repaid, the repayment does enable the member to access the plan to purchase other personal property. E.g., if a member repaid \$15,000 on an initial secured advance of \$25,000 to purchase a vehicle, the member would be able

to obtain a \$15,000 advance to purchase a boat. Unsecured advances are self-replenishing since they were not secured by personal property.

The expedited access to secured credit increases the likelihood that members will finance automobiles through the credit union rather than the dealership. Financing obtained at dealers often entails higher rates and fees.

We believe FRB staff has not made a compelling argument for prohibiting a lending program that has worked well for credit unions and their members for three decades. Comment 2(a)(20)-3.ii states that it is more reasonable for a financial institution to make advances for an open-end line of credit for the purchase of an automobile than for an automobile dealer to sell a car under an open-end plan. The Supplementary Information states that the Board proposes to delete the comment because it believes that the example places inappropriate emphasis on the identity of the creditor (financial institution) rather than the type of credit being extended by the creditor (secured open-end credit).

The subprime lending crisis--involving closed-end loans made by lenders that had little concern for the best economic interests of their borrowers--would indicate that consumers would be better served if the Board continued to place substantial emphasis on the quality of the lender rather than the type of credit. Credit unions rate consistently high in consumer financial service polls. There is no demonstrated need for the prohibition, and its adoption will result in less expeditious service to credit union members and substantial conversion costs for credit unions.

Additional Issues

Account-Opening Table in Lieu of Application Table.

Proposed comment 5a2 states, “a card issuer may provide the account-opening summary table described in §226.6(b)(4) in lieu of the disclosures required by §226.5a, if the issuer provides the disclosures required by §226.6 on or with the application or solicitation” (emphasis supplied). Given the minimal differences in the application table required by §226.5a and the account-opening table required by §226.6(b)(4), we believe the account-opening summary table should be allowed to be used with an application or solicitation irrespective of whether the other disclosures required by §226.6 are included with the application. (If the application does not include the other disclosures required by §226.6, the issuer would be required to provide those other disclosures and the table prior to or at the time the account is opened.)

Effective APR disclosed on Statements.

While it is important that the consumer is informed of the amount and type of fees charged during the statement period, the calculation and disclosure of the effective APR incorporating both interest and certain fees is of no value to the consumer and is often a

source of confusion. As the examples in Appendix F indicate the effective APR can fluctuate substantially and a larger average daily balance would result in a much smaller effective APR derived from the same charge.

E.g., example 2 of Appendix F provides for a \$100 transaction with a \$3 cash advance fee at the midpoint of the billing cycle. The annual interest rate is 18%.

If the balance at the beginning of the billing cycle is \$100 (resulting in an average daily balance of \$150) the finance charge is \$5.25 (*\$2.25 interest+\$3.00 cash adv. fee*), the monthly finance charge rate is 3.5% (*5.25/150*), and the effective APR is **42%** (*3.5% x 12*).

If the balance at the beginning of the billing cycle is \$900 (resulting in an average daily balance of \$950) the finance charge is \$17.25 (*\$14.25 interest+\$3.00 cash adv. fee*), the monthly finance charge rate is 1.816% (*17.25/950*), and the effective APR is **21.79%** (*3.5% x 12*).

While the size of the transaction is the same (\$100) and the fee charged for the transaction is the same (\$3.00) the effective APR decreases by more than 2000 basis points when the average daily balance increases from \$150 to \$950. The interest rate (18%) has not changed and the total cash advance fee (\$3.00) has not changed. The ultimate absurdity would be for a consumer to conclude that it is better to maintain a substantial cash advance balance since the effective APR is so much lower.

The requirement for disclosure of the effective APR should be deleted.

Subsequent Action Notices.

The Board proposes to require that subsequent action disclosures be sent 45 days prior to the change rather than 15 days prior to the change. We suggest the Board adopt 30 days rather than 45 days. Most creditors prefer to send the subsequent action notice with the previous monthly statement, and the envelope containing the statement is the piece of mail that consumers are most likely to open and read.

We are pleased to be afforded the opportunity to comment on the proposed amendments to Regulation Z and the staff commentary. Please contact me at 800-942-7124 ext.4262 if you have any questions concerning the above comments.

Very truly yours,

ILLINOIS CREDIT UNION LEAGUE

By: Cornelius J. O'Mahoney
Senior Technical Specialist