ICBA
INDEPENDENT COMMUNITY BANKERS of AMERICA

October 12, 2007

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Truth in Lending, Regulation Z, Docket No. R-1286
Open-End Credit That is Not Home Secured

Dear Ms. Johnson:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the proposed revisions to open-end credit disclosures under Regulation Z, the rule that implements the Truth-in-Lending Act. For the first time in over 25 years, the Federal Reserve is undertaking a major review of the rule governing disclosures and practices for most consumer loans. This first phase addresses "credit that is not home-secured," primarily credit cards. The goal is to provide disclosures when they are most useful and that help consumers make informed credit decisions. The Federal Reserve anticipates the changes will enhance competition among credit card issuers and may use these changes as the model for other consumer loans, including mortgages.

Background

The Truth-in-Lending Act, as implemented by the Federal Reserve's Regulation Z, is designed to provide meaningful disclosures to let consumers compare credit terms and avoid uninformed use of credit. The rules also are meant to protect consumers from inaccurate and unfair credit card practices. The proposed changes, designed after

[1] The Independent Community Bankers of America represents 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 268,000 Americans, ICBA members hold more than $908 billion in assets, $726 billion in deposits, and more than $619 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

consumer testing – a step long advocated by ICBA - would highlight fees and penalty rates, summarize key terms at account opening and when terms are changed, and revamp periodic statements to break out costs for interest and fees. In developing the proposal, the Federal Reserve attempted to carefully balance the benefits to consumers against the potential burdens to credit card issuers.

Summary of ICBA Comments

Many community banks offer credit cards to their customers. They provide this service to attract business and to maintain an effective and comprehensive relationship with customers. Credit cards are just one of a full range of competitive products community banks offer to serve their customers but important to maintaining the customer relationship. ICBA believes that the proposed changes, which will take considerable effort to implement, will benefit community banks in the long run. Generally, when community banks offer credit cards they are straightforward, simple and not subject to frequent change. The hallmark of community banking is a customer relationship built on trust and ICBA finds the fundamental basis for the Federal Reserve's proposed changes fully compatible with that. Once implemented, the disclosures will demonstrate the benefit of the credit card products offered by community banks and will clearly show that community banks generally offer credit cards at lower rates with lower fees and fewer penalties or junk fees. While implementing these changes will require substantial effort and resources, ICBA believes that the changes will help demonstrate the benefits for consumers to holding a credit card issued by a community bank.

Overall, ICBA believes the proposed changes will help customers better understand credit card operations. The proposed changes highlight the information that is most important to consumers, especially the rates and fees associated with a credit card account. As noted by the Federal Reserve, credit cards have become increasingly complex products. While that complexity has allowed banks to provide a broader range and variety of products and allows banks to offer credit card services to an expanded customer base – especially low and moderate-income customers – it also makes it increasingly difficult for the average consumer to understand all the details that govern a credit card account. ICBA agrees that many of the proposed changes will clarify the terms and conditions for customers in an easily understood format. The key is making sure the customer actually reads the disclosures, but if disclosures are presented in a user-friendly way, that may encourage customers to actually read the information.

Community banks that offer credit cards for their customers tend to rely on outside vendors to provide this service. For example, ICBA Bancard/TCM Bank provides community banks access to comprehensive and competitive electronic payment solutions, including credit, debit/ATM card, prepaid programs, merchant, remote deposit and Internet banking solutions. Therefore, the ability of service providers and software companies to provide solutions necessary to comply with any changes is an important component the Federal Reserve must consider when determining the length of time needed to implement the new rules. While ICBA finds many of the changes will be beneficial – and while we especially applaud the Federal Reserve for developing these changes after testing with consumers – we strongly recommend that enough time be allowed to comply with any changes. ICBA believes that at least 24 months will be needed. For changes such as advertising or initial disclosures, compliance will be simpler. For others, especially the changes to periodic statements that will require systems and software updates, longer time will be needed.

A key element of these changes is steps designed to call particular items such as penalty rates, introductory rates and important fees and charges, to consumers' attention. ICBA agrees with these steps to highlight key features of an account, but strongly recommends that the Federal Reserve take into account the rapidly evolving nature of delivery channels for credit cards and other banking services. The final rule must incorporate sufficient flexibility to ensure that the rules can be adapted to new technologies and changing markets. For example, a specific font size might make sense for paper disclosures but conversely make information less obvious or readable when used in mobile technology. Similarly, ICBA strongly encourages the Federal Reserve to regularly update guidance through optional best practices and questions-and-answers to keep pace with technology and evolving markets.

ICBA looks forward to continuing to work with the Federal Reserve and other interested parties to ensure that the rules and commentary are kept current, and we urge the Federal Reserve to continue working through the Consumer Advisory Council (CAC) and the Federal Financial Institutions Examination Council (FFIEC) to identify issues that need to be addressed in future updates to the rules.

Overview of the Proposed Changes

The goal of the proposed changes is to improve the effectiveness of disclosures at application and throughout the life of a credit card account. In recent months, Congress has given a great deal of attention to credit card practices and both the Senate and House have held hearings and are actively considering legislation. The changes being proposed by the Federal Reserve would not affect specific practices but would change how lenders communicate with consumers throughout the process. The Federal Reserve is proposing changes to format, timing and content of disclosures in five main areas: application and solicitation; account-opening; periodic statements; change-in-terms notices; and advertising. To help banks comply with the revisions, the agency would update the model disclosure forms.

For ***applications and solicitations***, the proposal would adjust the information presented in the required table (the "Schumer Box") to make it more meaningful and informative. New format, including rules on type size and boldface for key terms, would be designed to call consumers' attention to those terms. Lenders would disclosure the duration of any penalty rate, highlight the impact of payment allocation practices and include a reference to the Federal Reserve's website.

At ***account opening***, lenders would present new disclosures using the same box format used for applications and solicitations to make information about a credit card account more conspicuous and easier to read. Key terms would be disclosed in the summary table and a different approach used for disclosing fees to provide greater clarity.

Perhaps the greatest changes would be in the way information is presented on ***periodic statements***. The proposal would require fees, interest charges and transactions to be grouped together by transaction type, itemizing interest charges for different transactions, providing separate totals of fees and interest for the billing cycle and year-to-date, changing the disclosure of the "effective APR" and requiring disclosures on the impact of making only the minimum payment (as required by the Bankruptcy Abuse and Consumer Protection Act of 2005).

The proposal also would revise how disclosures are made for ***changes in terms***. The proposal would expand circumstances when a change-in-terms notice must be sent and generally increase the timeframe for providing the notice from 15 days to 45 days. Card issuers would also have to provide a change in terms notice when the interest rate on a credit card increases due to delinquency or default. If a change-in-terms notice is included with a periodic statement, a new table would have to be added to the periodic statement highlighting the key terms being changed.

Finally, the proposal would revise ***advertising*** requirements. If a minimum monthly payment is stated on an advertisement, an equally prominent statement about the time it takes to pay the balance would have to be included. If the ad uses the term "fixed" in reference to an interest rate, it must also specify how long the interest rate will stay constant.

Proposed Changes and ICBA Comments

Timing of Disclosures

The proposal would allow disclosures not required in the account opening summary table to be given later during the life of a credit card account. In part, this is designed to present information when it is most meaningful for the consumer. For example, if a consumer calls to make a telephone payment on the account, any charge associated with that delivery channel could be made at that time as long as the information is presented in a way that would let the consumer cancel the transaction before the fee is imposed.[2] Similarly, if a customer calls to request expedited delivery of a replacement card, the fee for that service would be disclosed at the time of the call.

The most important disclosures under credit card operations tend to be made when an account is first opened. However, while issuers would still be required to make certain disclosures at account opening, other disclosures could be made at the time they are most appropriate. **ICBA agrees this change is useful and will help customers focus on fees and charges at the most appropriate time.** This change also emphasizes the importance of ongoing dialogue between consumers and their financial institutions, something that has long been a hallmark of the community bank model.

[2] Under the proposal, creditors may still comply with TILA by providing written disclosures at account-opening for all fees.

One of the challenges associated with this provision will be how community banks demonstrate compliance. While it is appropriate to encourage banks to make certain disclosures during the life of the account when the information is most meaningful, ICBA also believes that all information associated with a credit card account should still be included in the account opening agreement. **The Federal Reserve and the other banking agencies should encourage disclosures at different times during the life of the account as an *optional* best practice that is recommended but not required.** This would avoid the difficultly of having to create a mechanism to demonstrate compliance with disclosures at times other than account opening. In other words, care needs to be taken with this provision to avoid unintended regulatory burden to demonstrate compliance for examiners.

Universal Terminology

The revisions would clarify that consistent terminology should be used for disclosures. For example, since the term "default" rate has not been easily understood by consumers, the term "penalty" rate would be used instead. Similarly, instead of using the term "free-ride," lenders would be required to use the term "grace period."[3] While credit life and similar coverage may be optional, some lenders require it, in which case the term "required" would have to be used.

ICBA agrees that it is useful to develop common terminology. Confusing terminology and different phrases used to describe the same operation add to regulatory burden for community banks and also make it more difficult for consumers to understand and compare accounts. ICBA commends the Federal Reserve for taking steps to inject common language into describing similar elements of credit card accounts, such as "grace period." The only caution we would raise is that some states already have specific terminology in effect for instances such as penalty or default. **State-chartered institutions are constrained by these requirements, and ICBA urges the Federal Reserve to take this into account in the final rule.**

In addition to the terms suggested in the proposal, ICBA also recommends that interest calculation, application of payments, introductory rate, statement closing data, and periodic rate be given common definitions. One simple approach to developing and applying common references would be to include a glossary of terms in the final rule that community banks, consumers and examiners can easily reference.

Clear and Conspicuous

The underpinnings of Regulation Z are a system of uniform disclosures that "clearly and conspicuously" explain the terms and conditions for consumer loans. The Federal Reserve has interpreted this requirement to mean disclosures must be in a reasonably understandable form. However, certain disclosures and information require a higher standard and must be highlighted. Specifically, credit card disclosures required in

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[3] The term grace period would not be mandatory as long as the lender is consistent in how it is described. Currently, while a grace period is not required, where a lender does offer one then statements must be sent at least 14 days before the grace period ends. The Federal Reserve is considering whether to recommend a longer period be adopted by Congress.

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the Schumer Box must be presented in at least 10-point font. To be reasonably understandable, oral disclosures must be presented at a volume and speed sufficient for a consumer to hear and comprehend.

ICBA agrees that it is appropriate to require certain information be highlighted in some way to call it to the customer's attention. This insures that customers are better informed about the terms of their accounts and makes it easier for consumers to make informed decisions. Making key information easier to find will reduce the time consumers need to locate pertinent information in what can often be complex agreements. Providing information in bold font or in a different color is one way to highlight information. However, it is important to recognize that paper based transactions are steadily diminishing as new technologies make it more efficient and cost-effective to communicate with customers electronically. Therefore, while it may be appropriate to require certain information be highlighted, **ICBA also recommends that the final rule maintain sufficient flexibility so that banks can provide the information in ways that work best and most effectively for a particular target audience and that make the best use of communication channels involved.** Another reason flexibility is important is to ensure community banks are not constrained by rigid requirements that may not be adaptable to new formats. For instance, telecommunications companies, financial service providers and software developers are exploring new ways to use cellular telephones for conducting financial transactions. Requiring information in a specific format or specific size font might defeat the use of these new delivery channels for certain transactions.

Electronic Disclosures

ICBA believes additional guidance would be useful for electronic disclosures. This is an area where regularly updated best practices or questions-and-answers could be useful for bankers, consumers and examiners. Additional guidelines will help avoid conflict between bankers and examiners and provide useful tools for community banks when offering products and services through new delivery channels. Moreover, without face-to-face contact, clarity is particularly important. Before developing such guidance, ICBA strongly urges the Federal Reserve consult with interested parties, including third-party service providers and software developers.

For example, one of the requirements under E-Sign[4] is that a consumer must clearly authorize electronic disclosures. However, where a consumer uses electronic channels to open an account, thereby clearly indicating that electronic communication is the appropriate and preferred channel for communications, ICBA finds it would be appropriate for the Federal Reserve to provide in the final rule that the disclosures may be made electronically. Since the consumer elects the manner of communication, it would make little sense and would in fact be counterproductive to require a community bank to respond to an electronic request to open an account using written disclosures. This is especially so with the increasing use of electronic technologies since E-Sign was adopted over seven years ago.

[4] The Electronic Signatures in Global and National Commerce Act, Pub. L. No. 106-229, 114 Stat. 464 (2000) (codified at 15 U.S.C. § 7001 *et seq.*).

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Initial Rates

Sometimes called "teaser rates" or "introductory rates," the proposal would require that disclosure of initial interest rates be highlighted in some way to call attention to the fact that the initial rate is lower and will expire after a given length of time. **ICBA agrees that any initial rate should be highlighted.** Initial rates are not *per se* problematic and can be a beneficial marketing tool that encourages customers to establish a relationship with a community bank. However, ICBA agrees it is appropriate to require that information about an initial rate, including the length of time it will be in effect, be explained to customers in a straightforward and easily understood way. ICBA also agrees that the terms "introductory" or "intro" should be used to convey that the rate is not a permanent rate on the account. Using the terms "introductory" or "intro" also encourages consumers to investigate the standard rate on the account and helps them understand that the rate on the account will change.

Applications and Solicitations

Currently, the disclosures for applications and solicitations[5] are considered among the most effective, primarily because the information is presented in a tabular format.

Interest Rates

At times a lender may not know the actual rate that will apply for a specific consumer before the account is opened since that will depend on a later determination of the consumer's creditworthiness. As a result, the issuer must disclose possible rates that might apply, either as specific rates or a range of rates.

ICBA finds it would be appropriate for lenders to disclose a range of rates or the specific rates that might apply. It is important that consumers understand that the pricing on a card is based on their risk profile and that a risk profile can change. It also provides an opportunity to educate consumers about how rates are associated with risk profiles. However, because of variables that may be unknown at the time of solicitation, it is important to grant creditors the flexibility to disclose a range of rates.

Highest Rate

The Federal Reserve is considering allowing a credit card issuer to only disclose the highest possible rate that might apply. **ICBA does not believe that it is helpful to give creditors the option of limiting the disclosure to the highest rate.** While some might contend that disclosing the highest possible rate could only lead to pleasant surprises for consumers who qualify for lower rates, it is somewhat misleading since the highest rate may be limited to a small universe of consumers solicited. Disclosing only the highest rate might also serve as an unnecessary disincentive that prevents customers from actually submitting an application. It might also prove tempting for some companies to always disclose a misleadingly high rate to claim they are benefiting

[5] A solicitation is defined as an offer to open an account that does not require an application. Essentially, a solicitation is a firm offer of credit offered through a pre-screened invitation. The proposal would clarify that a solicitation is different from an invitation to apply, which is not covered by the same disclosure requirements.

customers. Therefore, ICBA recommends the final rule allow a range or specific rates that reflect actual business practices but not only the highest rate.

Font Size

Because the purchase APR is considered one of the most important disclosures it must currently be disclosed in 18-point type. The proposal would reduce the minimum type size requirement to 16-point type.

ICBA does not object to reducing the font size for the purchase APR, but since the adjustment is minimal, does not believe it will have a significant impact. However, because new technologies are being used increasingly as delivery channels for financial products and services, it is also important to allow sufficient flexibility for electronic disclosures that do not mandate a specific font size. The key is highlighting information in a way that it stands out and is readily apparent – not mandating a specific size for the disclosure.

Interest Rate Information

Since information about the periodic rate can be confusing, the proposal would no longer give the option for creditors to disclose a periodic rate inside the Schumer Box. **ICBA agrees that it will be helpful to eliminate reference to the periodic rate since this information is poorly understood and not especially useful for consumers.** It will also eliminate a distracting piece of information and allow additional space for more useful and more meaningful disclosures.

ICBA agrees it is appropriate to consolidate information about variable APRs given inside the box to a single phrase indicating the APR varies "with the market" along with a reference to the type of index used to establish the rate (e.g., prime). More detail about the rate would be provided outside the box. Generally, community banks find that consumers pay closest attention to the information inside the box. Providing information about variable rates in the format proposed will provide consumers with an easy reference without cluttering up the box. Streamlining the disclosures in the box by eliminating unnecessary detail will help important information stand out. If the additional information outside the box is clearly cross-referenced and highlighted, anyone interested in additional details will be able to easily and quickly find them.

Similarly, ICBA agrees with the step to disclose rate floors and ceilings outside the box and not in the box. However, since rate ceilings and floors can be important information for consumers, it is important to have a cross-reference from the box to the description. Highlighting the paragraph that explains elements associated with the interest rate, especially ceilings and floors, using paragraph headers, bolded text or other devices, should be required so that the information can be easily located. How the information is highlighted – either through italics, bold text or different color text, should be at the discretion of the individual institution, as long as it is highlighted in some way so that consumers who want to find it can easily do so.

ICBA strongly agrees that if an issuer discloses an initial discounted rate in the box, it should be required to also use the term "introductory" or "intro" in close proximity to the rate. Whenever an initial rate applies, that information should be highlighted in some way, and use of the term "introductory" or "intro" is the most easily understood way to do that.

<u>Balance Computation Method</u>

Since balance computation information can be confusing to consumers, it would be removed from the box. Information about how a lender computes the balance on an account – such as through the average daily balance or two-cycle average daily balance – would still be included in the application or solicitation, but outside the box. The information would be provided directly underneath the box. **ICBA agrees with this change since it helps provide clarity and simplifies the key information presented in the box.** Since the balance computation method is important and has garnered recent attention on Capitol Hill, providing the method directly below the box will put it in a prominent location to give it the attention it deserves without distracting from information inside the box that helps consumers shop for an account.

<u>Default or Penalty Pricing</u>

The proposal would make several revisions to help consumers understand default or penalty pricing. Card issuers would be required to include a brief statement in the table about the specific events that trigger a penalty rate, the penalty rate, the balance or balances to which the penalty rate will apply, and when and if a penalty rate expires.

ICBA agrees that it will be helpful to use the term penalty rate instead of default rate. The term penalty rate should be more easily understood and better conveys the causes leading to the changed rate. People clearly understand the implications of penalty and using that term will help get consumers' attention.

<u>Fees</u>

Under the proposal, issuers would add a disclosure to the box for fees for late payment, going over the limit on the account, or making a payment that is returned. Cash advance fees and balance transfer fees would also be disclosed inside the table. **ICBA agrees that it is appropriate to highlight this fee information by including it in the Schumer Box disclosures.** These are key components to a credit card account and should be highlighted.

At this time, ICBA does not believe that there are other elements that need to be included inside the box. However, even though ICBA does not believe other fees need to be included in the Schumer Box, we believe it is important to highlight any other fees, such as a fee for expedited delivery of a card, in a single location so that they can be easily found by consumers.

Since credit card accounts are rapidly evolving, **ICBA also strongly urges the Federal Reserve to periodically review the information required to be disclosed in the Schumer Box.** It is the disclosures in the Schumer Box that earn the most attention from consumers, whether shopping for an account or confirming information on an

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account that is already open. The box presents information in an easily readable and readily accessible format. Given the importance of this information, it should be periodically and regularly reviewed as the credit card industry evolves and as market demands and technologies change.

<u>Payment Allocation</u>

A new disclosure would be added to the table about how the lender allocates payments to different segments of the balance. Consumers do not always understand how payments are applied to different segments of the outstanding balance, especially when a balance is transferred to open a new credit card account. To help alleviate this confusion, the proposal would require additional disclosures when a discounted rate is applied to balances transferred where that rate is lower than the rate on purchases and where a grace period applies to purchases. For example, the disclosures would explain that the discounted rate only applies to balance transfers (not other transactions), that payments are allocated to the transfer before new purchases, and that therefore interest will be charged to purchases until the entire balance transferred has been paid in full.

ICBA agrees disclosures on allocation of payments will help alleviate customer confusion. Currently, because credit card operations segregate an account into different tiers with different rates depending on whether the amount is a purchase, a cash advance or other advance under the line of credit, it is important consumers understand how payments will be applied. This is especially important when new accounts are opened with balance transfers. To avoid cluttering up the information in the Schumer Box, the disclosure inside the box should be a simple and straightforward statement with a cross-reference to an easily located paragraph or descriptor outside the box that provides more detail for those who are interested.

<u>Federal Reserve Website</u>

A new reference would be added inside the Schumer Box that directs consumers to the Federal Reserve's website for additional information. While ICBA believes this may be helpful and while we certainly encourage the Federal Reserve to continue developing educational information that is easily accessed by consumers, we question whether many consumers will use this resource. Still, we strongly support this step by the Federal Reserve and encourage the Federal Reserve to take additional steps to make consumers aware of this tool. ICBA also suggests that the Federal Reserve consider placing this information – possibly in bold font or otherwise highlighted – just outside but in close proximity to the box so that information *in* the box applies only to the specific account.

<u>Periodic Fees</u>

Information about periodic fees would be required to be included inside the box. For example, if there is an application fee, even though the fee might be charged to all applicants whether the account is opened or not, it would have to be disclosed inside the box. While Regulation Z currently requires periodic fees to be disclosed on an annual basis, the proposal would change this requirement so that the disclosure would reflect the actual assessment (e.g., monthly amount) *and* an annualized amount. For example, if there were a $10 per month account maintenance fee, the disclosure would show both a

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$10 per month and $120 per year maintenance fee. **ICBA agrees that this is useful information and that it should be disclosed inside the box.**

There are times when a transaction may involve both an interest rate *and* a fee. For example, a cash advance may involve a transaction fee and a higher interest rate than the rate for purchases. **ICBA finds it helpful to highlight that information by including it inside the box.**

Grace Period

If a creditor does not offer any grace period for payments, that would have to be disclosed inside the box. When a grace period is offered, to ensure consumers understand the grace period, issuers would have to briefly describe how it operates on a particular account (for example, "if you pay your entire balance in full each month, you have at least 25 days after the close of each period to pay your balance on purchases without being charged interest"). **ICBA believes information about the grace period is useful for consumers.** Including information about the grace period inside the box clarifies this aspect of an account and highlights an important element of a credit card account for consumers.

Subprime Accounts

A great deal of concern has been raised recently about certain subprime accounts where fees and other charges consume a substantial portion of the available credit limit before the consumer actually uses the account. For example, a subprime credit card account might be restricted to a $250 credit line, but the initial fees amount to nearly $200, leaving only $50 credit available. To address these problems, the proposal would require an additional disclosure in the box about the available balance *if* initial fees are 25% or more of the minimum credit limit offered for the account. Where certain fees are optional, those fees are not considered in making the 25% calculation (but they would have to be disclosed).

ICBA agrees with this step. Where initial fees and charges consume most of the available credit, it is important that consumers easily understand that they do not really have the full amount of credit available because of these fees. ICBA also agrees that 25% is the proper trigger to mandate these disclosures.

Account Opening Disclosures

The proposal would make two significant changes to account opening disclosures. First, the rule would require a table summarizing key terms on the account. Second, the proposal would change how and when certain cost disclosures are made to ensure that consumers receive information when it is most useful.

Account Opening Table

Currently there are few specific format requirements for presenting information about the key terms in the account opening disclosures. As a result, the disclosures have been criticized because key terms can be interspersed in "mouse print" in long and complex documents. To address this problem, the proposal would require a summary of key terms in a new table similar to the Schumer Box used on applications and solicitations. The Federal Reserve hopes that setting key terms apart in a summary table will better ensure consumers are aware of those terms.

ICBA agrees that it is appropriate to include a table summarizing account opening information. Many consumers have come to rely on this information in applications and solicitations and it is logical to include a similar set of disclosures in the account opening information. **ICBA also commends the Federal Reserve for allowing creditors to use the same table in both applications and account opening disclosures since this will both help simplify compliance and facilitate consumer understanding of the disclosures.** To a certain extent, using the same table will be determined by third-party vendors. However, account opening is possibly the best time to educate a consumer about how the account will operate and using a tabular disclosure format will help convey that information. If creditors use the same table in solicitations and account opening agreements, it will make it simple for consumers to compare the features of different credit cards. This ease of comparison might become a marketing tool for community banks.

Similar to the disclosures on account solicitations and applications, the new summary box required for account opening disclosures would include information about any grace period and a cross-reference to the Federal Reserve's website for additional information. **ICBA agrees it is appropriate and helpful to include this in the box.**

Initial Introductory Rate

The table required by the proposal for account opening statements would include any temporary initial rate (including information about when it will expire, why it will expire and the rate that will apply after the temporary rate ends), any increased penalty rates, and when a rate and fee apply to the same transaction. Again, **ICBA agrees this is appropriate.**

Fees

The following fees, in bold, also would have to be included inside the new account opening box: fees for issuance or availability of credit, transaction charges, penalty fees, any minimum finance charge, any fee for required credit life or similar coverage, and a brief explanation on how payments are allocated. This list of fees would be exclusive in order to eliminate confusion and ease compliance burden.[6] Because there are instances when fees may differ from state to state, issuers would be permitted to list a range of fees with a brief statement that the amount may differ from state to state.

ICBA finds disclosing certain fees in bold in the account opening box will help highlight important information for consumers. Including the information in the box in bold text will help call the information to consumers' attention by making it easier to see and read. However, because there is an increasing reliance on electronic communication, **ICBA also urges the Federal Reserve to recognize that it is not**

[6] An exclusive list also focuses on the elements consumers identified as the most meaningful during the initial phases of consumer testing.

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necessarily the font size or the format of the text that is important as long as the information is highlighted in some fashion. As new technologies are developed, especially the increasing movement to smart phones, the key will be to allow credit providers to highlight the information in manner that calls it to the consumer's attention. Mandating a specific format might actually make it difficult to read if the information is delivered through certain electronic channels, and the Federal Reserve should take this into account in the final rule to avoid any unintended consequences, especially since the market is likely to evolve more rapidly than the regulatory regime behind it.

<u>Other Fees & Timing</u>

Any other fees associated with a credit card account could be disclosed in the account opening agreement, although outside the summary table. The Federal Reserve anticipates that many creditors will include other fees in their account opening agreements. However, the agency also anticipates disclosures not included in the summary table will be made when they are most meaningful to the accountholder. For example, if a customer telephones to ask for the expedited delivery of a replacement card, the bank could disclose the delivery fee when she calls instead of including it in the account opening statement.

To a certain extent, ICBA believes that disclosing other fees when they are about to be incurred will be a useful step and might help alleviate disagreements with customers. However, many community banks already take steps to communicate this information in the interests of good customer relationships. **ICBA believes this is an area where supplemental guidance outside the final regulation, such as through *optional* best practices, would be useful**, and encourages the Federal Reserve to continue to stress that this information is beneficial for both the provider and the customer and helps promote good customer relations.

It is equally important to ensure that consumers understand that the account agreement is the critical point for all information associated with the account. Presenting information in a simplified format and including the most important information in the disclosure box will help convey that message. However, **ICBA is concerned that compliance burdens will arise if disclosure of certain fees and charges is required at the time of a transactions before a fee or other charge can be applied.** For instance, if the fee for expedited delivery of a card *must* be disclosed when a customer requests that service, then it will become incumbent on the bank to develop a system to demonstrate compliance with the requirement for examiners. This has the perverse consequences of adding burden unnecessarily and possibly discouraging the service. The key is flexibility in the disclosures without creating unnecessary red tape that undermines the intent.

<u>Classification of Fees</u>

The Federal Reserve recognizes that it is not always clear whether a specific charge is a finance charge, an "other" charge, or neither. While the terms are given broad meanings to provide flexibility, it is not always clear how a specific charge should be categorized. Moreover, civil liability and other penalties can make a classification error costly for lenders. The revisions would make it easier to disclose specific charges without being concerned about how they are classified. Under the proposal, there would be a single category of "charges imposed as part of an open-end (not home secured) plan."[7]

ICBA questions whether this will alleviate confusion. Designating fees as "charges imposed as part of an open-end (not home secured) plan" might be just as confusing to many consumers – and bankers and examiners – as existing terminology. Credit card accounts are by definition open-ended, so including that provision is somewhat redundant. **ICBA believes it would be simpler to segregate charges into interest and fees and provide the information using those simple terms.** The more language added, the more likely the disclosure will be confusing – and the more subject to abuse by unscrupulous creditors and the less likely consumers will pay attention to the information.

Balance Transfer Disclosures

Generally, account opening disclosures must be given before the first transaction. Where a balance transfer is used to open an account, the proposal would clarify that the account opening information must be provided before the balance transfer, with enough advance notice to let the consumer respond to the terms of the transfer. If the only activity on an account is assessment of a fee, the proposal would clarify that the consumer would not be considered to have accepted the account until the consumer receives the first billing statement and makes a payment on the account.

ICBA disagrees. By making the balance transfer, a customer demonstrates acceptance of the account. If the Federal Reserve is concerned about abuses, it would be more appropriate to require that the account opening disclosures precede the balance transfer. Most reputable creditors will not have a problem with such a requirement.

Periodic Statements

Creditors must provide periodic statements to reflect the activity on the account during a billing cycle, usually around one month. The proposal includes a number of changes to the periodic statement that are designed to improve customers' understanding of fees and interest costs.

Grouping Fees and Charges

The consumer testing sponsored by the Federal Reserve found that consumers understand fees and charges better when the fees and charges are itemized and grouped together. Therefore, the proposal would require lenders to group like charges together and describe them in a manner consistent with consumers' general understanding.

ICBA agrees that most consumers will find it helpful to group different fees and charges together. This will make credit card disclosures more similar to checking

[7] These charges would be listed in the rule at 12 CFR 226.6(b)(1)(i), i.e., current finance charges, charges from failing to use the account as agreed (e.g., penalty fee), taxes, charges that affect access to the plan, charges for terminating a plan, and charges for voluntary credit life and similar fees.

account statements and how banks present information on those statements. Grouping like fees and charges on a credit card account statement will also make it easier for consumers to find and identify information pertinent to a particular transaction and should make it easier to understand.

Year-to-Date Totals

Another proposed change would require creditors to disclose total fees and total interest imposed during the cycle *and* year-to-date totals for interest charges and fees on the periodic statement. Disclosures would be in dollars since consumers more readily understood dollar figures than costs disclosed as percentage rates. Again, *ICBA agrees that consumers will find this helpful.* Customers are used to looking at other financial information, such as monthly mortgage statements, in this way. It will also better convey the total year-to-date charges consumers incur on their credit card accounts and ensure they are aware of actual costs. However, **ICBA is also concerned about the potential costs associated with reconfiguring systems to make these disclosures and therefore strongly encourage the Federal Reserve to consult with various software providers to see if this information can be easily and cost-effectively provided before finalizing this requirement.**

Terminology

Charges on the periodic statement would no longer be labeled finance charges since that term is confusing. Instead, the amounts would be labeled "interest charges" and "fees," as appropriate. **ICBA agrees that avoiding use of the term finance charge will be less confusing.** The terms "fees" and "interest" are clear and more likely to be readily understood by the average consumer. Understanding what is meant by finance charge is difficult for those who regularly work with the term while explaining it to most consumers can be virtually impossible.

The Effective APR

One area that has been confusing for lenders and consumers alike is the disclosure of an "effective APR." The effective APR is intended to reflect all costs imposed during the billing cycle as a percentage rate. Consumer activists believe that the shock value caused by a high effective APR can be instrumental to helping consumers to change behavior while creditors believe it should be eliminated as confusing and misunderstood. To address this issue, the Federal Reserve has proposed two options.

The first option would attempt to improve the effective or historical APR by more clearly defining how it is calculated and presented. Under this option, the effective APR would be re-labeled as the "fee-inclusive APR" and would disclose an effective APR for each feature, such as purchases and cash advances, in a tabular format. A composite effective APR for two or more features would no longer be permitted**. ICBA does not believe that changing how the APR information is disclosed on periodic statements will be helpful.** As noted, consumers have a difficult time understanding the effective APR and ICBA questions whether extensive changes to how the disclosure is made would be worthwhile. Even "fee-inclusive" APR is not readily understandable. Another question is whether or not the information is particularly useful or helpful for consumers. Interestingly, during the Federal Reserve's consumer testing, it wasn't until the very last revisions to the effective APR disclosure that consumers began to understand its intent; in the initial phases of testing it was completely misunderstood. ICBA does not believe it is worth the time and effort to continue attempting to revise the "effective APR" to a point where it can be readily grasped by the average consumer.

The second option would eliminate the effective APR altogether. **ICBA believes this is the preferred option and that the effective APR should be eliminated.** Other proposed changes, such as providing information about interest and fees grouped together and provided for the statement cycle and year-to-date are more likely to convey meaningful information to consumers than attempts to further refine the effective APR. Rather than include an item that is currently poorly understood and doesn't appear to provide much useful information for most consumers, ICBA recommends that this confusing and unnecessary disclosure be eliminated. It is also important to remember that over-disclosure can defeat the purpose of the disclosure by overwhelming consumers to the point where they disregard the disclosure completely.

Rate Disclosures

Several additional changes are proposed for how rates are disclosed. Since consumer testing found that the periodic rate did not provide meaningful information, the proposal would eliminate the periodic rate disclosure from periodic statements. **ICBA supports elimination of the periodic rate disclosure.** Since most consumers fail to grasp the application of the periodic rate, it does not provide useful information. Eliminating any unnecessary disclosure helps make important information more noticeable.

Late Payments

Since late payments can be confusing, the proposal would require disclosure of the payment due date on the front of the periodic statement along with a statement in close proximity to the due date of any cut-off time if it is before 5:00 pm on the due date.[8] In addition, in close proximity to the due date creditors would give a brief description of any late fee or penalty APR that might be triggered by a late payment.[9] **ICBA believes it will be helpful for consumers to include this information.** And, since some creditors rely on third-party processors to post payments, providing additional information about timeliness of payments can be useful.

For payments made electronically, the proposal would clarify that the payment date is the date the consumer selects for the payment to be posted and not the date the consumer enters the payment instruction. **ICBA believes that this guidance is helpful and will eliminate confusion between consumers and creditors.**

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8 If there is more than one cut-off time that might come into play, the disclosure would be limited to the earliest cut-off time for the account.

9 In making this disclosure, issuers would not have to explain or refer to any informal courtesy periods, such as where the late fee is regularly waived for any payment posted within the first two days after the cut-off.

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Minimum Payments

The Bankruptcy Reform Act requires creditors to provide a warning on the periodic statement about the effect of making only the minimum payment.[10] The proposed changes would implement the "warning" requirement, outline a hypothetical example of how long it would take to pay the balance if only the minimum payment is made each month, and provide a toll-free number for consumers to call to get an estimate of how long it would take to repay the actual account balance.

Minimum Payment Formula

When making the minimum payment disclosure, issuers would disclose the payoff period in years, rounding fractional years to the nearest whole year, instead of making the disclosure in months as required by the statute.[11] The proposal would also eliminate the specific minimum payment formula examples from the statement since the agency finds this would be overly complex and possibly misleading to consumers. **ICBA agrees that it is more beneficial to avoid disclosing a specific minimum payment formula as confusing to most consumers.** Most consumers are unlikely to be interested in the formula as much as the actual amount of the minimum payment.

Optional Exception

The minimum payment disclosure requirement would not apply to accounts where cardholders have paid their accounts in full for the two prior consecutive months. **While it is not immediately apparent to what extent community banks will take advantage of this option, ICBA supports the flexibility of including this option.** In part, community banks' decision to elect this option will depend on their software providers or third-party processors. In some cases, it might be easier to provide the disclosure on all accounts and not segregate those who have paid the balance in full during the prior two statement cycles. However, the ability to eliminate an unnecessary disclosure where it does not provide useful information for consumers is helpful.

Disclosure Tables

The Bankruptcy Reform Act requires the Federal Reserve to create tables creditors can use to make the minimum payment disclosures. However, instead of developing tables, the Federal Reserve proposes to issue guidance to help issuers calculate the generic repayment estimate. ICBA is concerned that eliminating the tables eliminates an easily referenced information source for consumers, bankers and examiners. While ICBA understands that creating the tables can be difficult for the Federal Reserve, Congress mandated that these tables be created. The creation of the tables will ensure that community banks and consumers have access to standardized information on the minimum payments and a variety of parameters that can come into

[10] The requirement to disclose a minimum payment would be limited to credit card accounts. This was the focus of Congressional discussion before the requirement was enacted. It is also a step ICBA strongly urged the Board to take in our earlier comments. The exemption would also apply to all non-credit card accounts even though a credit card might be used as an access device, such as a home equity line of credit (HELOC) or reverse mortgage.

[11] The Federal Reserve believes making the disclosure in years would be more meaningful for consumers.

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play when determining the minimum payment. It also ensures that one source, the Federal Reserve, creates the reference material used by all those interested. **While ICBA believes it is important to have the tables as a single source for this information, if the Federal Reserve decides to detour from the Congressional mandate, ICBA recommends that it offer a standard calculator on its website that any interested party can use to obtain minimum payment information.**

Calculating the Minimum Payment Disclosure

The first step to calculating the information for the minimum payment disclosure would be to identify a typical minimum payment amount. Under the guidance, an issuer would use the "most common formula" it uses for determining the minimum payment for its accounts. An issuer would identify which minimum payment formula is most commonly used as of one specific day in the preceding six months; this would then have to be re-evaluated every 12 months. Since the Federal Reserve and FTC must offer this service for smaller card issuers for the first two years, the minimum payment formula the agencies would use to identify a typical minimum payment amount would be either 2% of the outstanding balance on an account or $20, whichever is greater.

Since the disclosure is designed as a generic disclosure, ICBA believes that this first step is appropriate. However, since this is a new disclosure, ICBA also recommends that the Federal Reserve closely monitor the application of the minimum payment disclosure, both through its own examiners and through discussions with other supervisory agencies through the Federal Financial Institutions Examination Council (FFIEC) to determine whether refinements to the rule or additional guidance is needed.

Assumption for Making the Calculation

To make the minimum payment disclosure calculation, issuers would make certain assumptions: the APR used would be the highest APR on which the consumer has an outstanding balance; the beginning balance would be the balance outstanding at the close of the last billing cycle; only the minimum payment would be made each month; there would be no additional extensions of credit and no grace period; the final payment would pay the account in full; the balance would be calculated using the average daily balance method; all months would be the same length; and payments would be credited on the last day of the month.

ICBA agrees that these assumptions are appropriate and logical. These assumptions also help develop a system that is uniform across all creditors when making the calculation. In finalizing the rule, ICBA also encourages the Federal Reserve to develop a model disclosure that clearly explains that standard assumptions that are used in making the minimum payment calculation that can be readily used by community banks. This information should also be posted to the Federal Reserve's website to serve as a reference for consumers on the elements used for the disclosure.

Repayment Estimate

When providing the mandatory minimum payment disclosure, an issuer would provide the generic repayment estimate. If the time to pay the outstanding balance in full is less than two years, the disclosure would be made in months, but if over two years it

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would be disclosed in years rounded to the nearest whole year. **ICBA agrees that providing consumers with the disclosure using an annual format will the useful. However, for consistency, ICBA recommends that the disclosure always use the annual format and not sometimes require the disclosure be provided in months and other times require that it be provided in years.** This difference can unnecessarily add to regulatory burden and cause confusion.

Optional Minimum Payment Disclosures

In addition to the mandatory disclosures on minimum payments, issuers would be permitted to make several optional disclosures to consumer who call for the information:[12] (1) a description of the assumptions used to make the calculation; (2) how long it would take to pay the balance if an additional amount is paid each month (letting the consumer select that amount); (3) how long it would take to pay the balance if a fixed payment were made each month; (4) the monthly payment needed to pay the balance in a specific time period elected by the consumer; (5) reference to web-based calculators; or (6) the total interest a consumer would pay if only the minimum is paid each month.

ICBA agrees with allowing these optional disclosures.

Toll-Free Telephone Number

The Federal Reserve, as required by the statute, would provide a toll-free telephone number for customers of banks with less than $250 million in assets to call to obtain information about minimum payments. **ICBA appreciates the availability of this service for smaller community banks.** While two years may be sufficient time for community banks with less than $250 million in assets to develop their own mechanisms to comply with the minimum payment disclosure requirements, **before discontinuing this service, ICBA strongly encourages the Federal Reserve to consult with interested parties to see if it is worthwhile to continue.**

Actual Minimum Payment

The proposal would give creditors the option of disclosing directly on the periodic statement the actual time needed to pay the balance if only the minimum payment were made. If a creditor elects this option, the hypothetical example and toll-free telephone number would not be required.[13]

ICBA believes that there are a number of advantages to providing this information directly on a customer's periodic statement. It is important to understand, though, that for many community banks, the final determination about whether to elect this option will depend on whether software vendors and third-party processors implement make this option available in a cost-effective way.[14]

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[12] It is important to recognize that issuers could only make these optional disclosures and would not be allowed to provide other information. The intent is to prevent issuers from turning the inquiry into a sales pitch for other products and services.

[13] The Federal Reserve strongly encourages issuers to elect this option.

[14] ICBA strongly encourages the Federal Reserve to raise this question with vendors and processors to determine what steps they intend to take.

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Change in Terms Notices

Currently, when there is a change in a term on a credit card account, the lender must send out a notice 15 days in advance. The proposal would change this to generally require a minimum of 45 days advance notice. According to the proposal, the Federal Reserve believes that this change will allow consumers to take any steps necessary to open a new account, transfer balances or take other appropriate action before the change takes effect.

ICBA is concerned about the length of the 45-day change in terms notice timeline. Based on the time needed to put changes into effect, ICBA believes that placing a 45-day requirement into the regulation actually translates into a much longer timeframe. Practically, a 45-day requirement will become at least two statement cycles or 60 days and could be as long as 90 days for instances where a bank must rely on outside vendors to implement the change. As a result, banks will need at least 60 to 90 days or longer. **This elongated timeframe carries significant increased risk for banks and other creditors which they will have to account for in the pricing and structure of their credit card accounts, thereby increasing costs for consumers and making terms on accounts less flexible.**

ICBA understands that the primary goal for this proposal is to ensure that consumers have time to seek other options when they are notified of a change – including a change for a penalty rate. Most community banks use a statement cycle that is approximately 30 days in length. However, due to existing operational constraints, the Federal Reserve must recognize that it is difficult, if not impossible, for community banks to provide a mid-cycle notice to customers. Therefore, this element of the proposal will mean that community banks will have to provide notice of any change in terms at *least* 60 days before the change can take effect.

<u>Penalty Rates</u>

The proposal also would require a change in terms notice whenever a penalty rate is imposed due to a delinquency or default on the account.[15] Specifically, the proposal would require the following information to be provided: a statement that the delinquency or default rate or penalty rate has been triggered; the date that rate will apply; the circumstances, if any, that will end the penalty rate; a statement outlining which balances the penalty rate will affect.

Creditors would still be able to freeze an account or lower the credit limit without advance notice. However, if an issuer is reducing the credit limit on an account, 45 days advance notice must be given before an over-the-limit fee or penalty rate may be applied.

Due to the operational strictures on providing notice, and since 45 days will actually translate to a much longer timeframe, ICBA is concerned that the delay on

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[15] Currently, if a default or penalty rate is disclosed on the account opening documents, no advance notice is required before the creditor puts the penalty rate in place, even though the default might occur years after the account was initially opened.

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penalty notice implementation might have a number of unintended consequences. ICBA agrees that customers should fully understand the circumstances when a penalty might apply, and this should clearly be explained at the time an account is opened. Unfortunately, we agree that most consumers will disregard the information at account opening since they operate on the premise that nothing will ever happen to cause their account to become delinquent. However, ICBA is concerned that during the time between the event or transaction that triggers the penalty rate and the time it can go into effect under this new disclosure regime, the account could deteriorate further.

One possible unintended consequence to this proposal is that creditors might decide that marginal applicants, especially low- or moderate-income applicants, should either be placed in a riskier category at the outset, meaning they will pay more for credit throughout the account, or that these applicants might be less creditworthy and therefore would be denied credit. **ICBA encourages the Federal Reserve to continue to assess this issue through discussions with interested parties**, including trade associations and the representatives to the Consumer Advisory Council. **The Federal Reserve should also use its existing tools and data resources to assess whether this change will have a negative impact on the availability of credit for marginal or less creditworthy borrowers.**

<u>Notice Format</u>

To ensure consumers actually see the changes, the proposal would also change the format required for the notice. If a changed term is one included on the account-opening summary table, then the lender has to provide the change in a summary table.[16] **ICBA does not believe that this change will present a problem.** Community banks believe that customers should be clearly informed about changes to their accounts. However, it is also important for the Federal Reserve to consider that providing disclosures in this new format is likely to entail additional expense and that the additional expense will be passed along to credit card accountholders in some way, either through increased fees or higher interest rates.

If a notice is enclosed with the periodic statement, a table summarizing the impending change must appear on the periodic statement, directly above the transaction list. **ICBA agrees that presenting the disclosures in this format will help call attention to the information – as long as consumers actually read the disclosures.** Again, providing this information on the periodic statement will entail additional costs, especially for the initial changes to software programs to provide the information on the statement.

[16] The summary table required for changes in terms would provide a summary of the changes, a statement that changes are being made to the account, a statement indicating the customer has the right to opt-out (if applicable), the date the changes take effect, a statement that additional information is available (if applicable), and a statement about any change to the rate on the account.

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Advertising

Several changes are also proposed for advertising. As required by the Bankruptcy Reform Act, when an advertisement states an introductory rate, the time period that rate applies and the rate that applies after the introductory rate ends must be stated in close proximity and in a 'clear and conspicuous' manner. Moreover, the term "introductory" or "intro" must be used to identify the initial rate. This requirement would apply even if the initial rate would last longer than one year and would apply to all applications and solicitations, including "take-ones" in a display rack. **ICBA agrees with the requirement for disclosing introductory rates.** This will ensure that information related to introductory rates is clearly and simply explained to consumers.

Consumer testing sponsored by the Federal Reserve also found that many consumers believe a "fixed" rate will not change during the life of the account. The proposal would let creditors use the term "fixed rate" in an ad *only* if the ad also specifies how long the rate will be "fixed" or not increase. If there is no time specified, the rate would not be allowed to change as long as the account is open. Again, **ICBA agrees that this change regarding "fixed" rates is appropriate.** If a rate is "fixed" for a limited time period, then that should be clearly explained to consumers. Since consumers can be easily confused by what is meant by "fixed" rate, as evidenced by the number of recent lawsuits challenging the use of the term, clearly explaining what is meant will help consumers understand the terms of the account as well as helping to avoid unnecessary litigation.

Other Disclosures

<u>Separate Advances</u>

If each "advance" under a line of credit is actually separately evaluated, so that each advance is really a separate consumer loan, the proposal would clarify that such arrangements require new disclosures for each advance. **ICBA recommends that the commentary provide that when a creditor evaluates each request for an advance as a separate loan (so that the line of credit is not in fact an available line of credit) then the customer does not really have a line of credit.** Under those circumstances, each "advance" becomes a separate loan requiring separate disclosures. This will be a factual determination that should be made on a case-by-case basis.

<u>Convenience Checks</u>

A common service offered by credit card issuers are "convenience checks" that access the account. The proposal would require additional disclosures about the costs for using these convenience checks must accompany the checks once the credit card account has been open more than 30 days. The new disclosures must be included on the front of the page containing the checks. The disclosures must provide information about any fees and charges associated with using the checks along with information about whether and how a grace period applies if the checks are used.

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ICBA agrees with the new disclosure requirements for convenience checks. It is appropriate that customers know what fees are related to the use of these products and how they will apply.

<u>Credit Life</u>

Lenders sometimes offer customers credit life insurance or debt cancellation coverage as an optional service associated with an account. The existing rules let lenders exclude the fees for this coverage from calculation of the finance charge and APR as long as the lender explains that coverage is optional and discloses the fees associated with the coverage. The exclusion is limited to coverage for accident or loss of life, health or income and this would not change.[17] However, since the rules on credit life or debt cancellation coverage come into play when the insurance is written "in connection with" a credit transaction, the proposal would clarify what is meant by "in connection with." The rule would apply to any insurance, debt suspension or debt cancellation coverage written once the account is opened.

ICBA agrees that this is appropriate.

Transition Period

It is especially important to allow sufficient time for banks – especially community banks – to adapt and implement any changes to the rules. In addition, time will be needed to develop appropriate information to communicate the changes to consumers. **ICBA applauds the steps that the Federal Reserve has been taking to educate consumers and strongly encourages the Federal Reserve to develop additional educational materials community banks can adapt to their own use to explain the new disclosure formats to their customers.**

Because these are the first major revisions to the credit card disclosures in over 25 years, **ICBA also strongly urges the Federal Reserve to allow enough time for systems changes and other revisions that banks will have to undertake to comply with the new rules.** At a minimum, six months will be needed for some of the simpler revisions such as advertising disclosures. More importantly, changes that affect software systems and that will entail reprogramming – especially the revisions involving changes to periodic statements – will require longer to put in place. Software will have to be updated and revised, and interaction with other systems, such as general ledger programs, will also have to be reconfigured. For many community banks that rely on outside software service providers, sufficient time will be needed to allow service providers to develop appropriate updates and then allow their bank customers to test and install the changes. Therefore, ICBA recommends a longer period be permitted. Generally, **ICBA urges the Federal Reserve to allow at least 24 months for the transition.** However, we also recommend that the Federal Reserve consult with outside vendors to determine how long will be needed to reprogram and update software.

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[17] Some states and the OCC do not impose such limits.

Conclusion

Fundamentally, the goal for these changes should be to help the consumer understand the terms and conditions of their card agreement without creating unnecessary burden for banks. In fact, the goal should be to reduce burden, since that will help reduce the costs and risks associated with credit card accounts. Unfortunately, over time, credit card products have become increasingly complex. While this complexity allows credit to be extended to an increasing number of borrowers, especially marginal applicants, and while the complexity helps the industry serve a broad spectrum of consumer demands and needs, it also means that understanding the terms and conditions for credit card accounts has also become more difficult. ICBA believes that while the changes will require substantial effort and resources to implement, in the long run the changes will benefit community banks. Clear and straightforward disclosures will demonstrate that community banks offer credit card products that offer lower rates, have lower fees, and have fewer penalties and junk fees.

The Federal Reserve's approach to simplifying and streamlining the disclosures is a step in the right direction. However, we strongly urge the agency not to wait another 25 years before updating the regulation again. The major changes proposed might have been less costly and less burdensome had they been implemented gradually over time. ICBA strongly encourages the Federal Reserve to more frequently review and update these rules once they are finalized. We also strongly encourage the Federal Reserve to periodically offer additional guidance for credit cards, preferably working in conjunction with the other banking regulators through the FFIEC. This guidance can be in the form of *optional* best practices or questions-and-answers. The agencies have successfully used this approach in other areas, such as the Community Reinvestment Act, and ICBA believes this would be equally helpful for credit cards. This is especially true in today's markets where payment systems and mechanisms are evolving rapidly. For example, use of the Internet to conduct retail transactions is increasing and new delivery channels are constantly evolving. It is important that the Federal Reserve recognize that the models on which the initial Regulation Z disclosure regimes was developed need to adapt and evolve to meet the changing market and new technologies.

Overall, credit card disclosure information should be provided clearly, concisely and in easily understood formats. Rather than mandating specific formats for disclosures, the Federal Reserve should identify elements that should be highlighted and then let the market develop systems that appropriately call attention to those disclosures. Otherwise, mandates can become quickly outdated or not serve as they were initially designed.

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Thank you for the opportunity to comment. If you have any questions, would like additional information or would like to discuss any of these issue further, please contact the undersigned by telephone at 202-659-8111 or by e-mail at robert.rowe@icba.org.

Sincerely,

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