



October 12, 2007

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

RE: Comments on Docket No. R-1286; Regulation Z

Dear Ms. Johnson:

I am writing on behalf of the State Department Federal Credit Union (SDFCU) in response to the Board of Governors of the Federal Reserve System's (Board) request for public comment regarding its proposed rulemaking regarding Regulation Z, which implements the Truth in Lending Act (TILA). Although the Board is proposing several changes to TILA, SDFCU is only commenting on amendments to comments 2(a)(20)-2 and 2(a)(20)-5: proposed changes to "multi-featured open-end lending" or open-end credit plans. For your reference, SDFCU is a federally chartered credit union with over 65,000 members located around the world and almost \$1 billion on deposit from members.

SDFCU currently uses a multi-featured open-end lending program; however, *SDFCU supports the proposed amendments regarding multi-featured open-end lending programs* and believes that the changes will be good for consumers and financial institutions that currently use these programs. The proposed amendments have merit and the benefit to consumers will far outweigh any inconvenience and cost to SDFCU and other financial institutions that currently use multi-featured open-end lending programs.

The most important issue affecting consumers using multi-featured open-end lending programs is confusion over lack of clear disclosure. Consumers often sign a "master loan agreement" with their initial request for credit, but do not receive meaningful disclosure with each subsequent extension of credit. Moreover, consumers often do not realize that subsequent extensions of credit are subject to the terms and features chosen (i.e. credit life and disability insurance) on the master loan agreement. Consumers are not the only people confused; multi-featured open-end lending programs confuse financial institutions and their staffs because the lending programs appear to have features of both open-end and closed end loans at the same time. This lack of clear disclosure and confusing nature run counter to TILA's goal of providing disclosure to consumers when there is an extension of credit.

An analogy may best describe SDFCU's reason for its position on disclosure under multi-featured open-end lending programs. A subsequent extension of credit can be compared to a consumer staying at a hotel when the consumer agreed to all of the important terms and conditions of the stay years earlier. On the initial stay the consumer chose, for example, to have keys given to two guests. On each subsequent visit, the consumer does not receive paperwork detailing the original terms and actually thinks that each subsequent visit is a new and independent visit that has no relationship with the original stay at the hotel. However, on each subsequent visit to the hotel one of the consumer's guests could request a key and enter the room or order room service even though the consumer had not agreed to give the guest access to the room on that visit to the hotel.

The example above demonstrates how multi-featured open-end lending programs are often viewed by consumers. Consumers do not realize that they are subject to the terms of the initial extension of credit for each subsequent extension of credit unless they proactively request that the terms be changed. In the example above, the change request would be the consumer asking that the guests from the first visit not be given keys each additional time the consumer stays at the hotel. The consumer would have to remember to make this request because the consumer would not be given disclosure on each subsequent stay reminding him of the original terms. Similar to the consumer's subsequent hotel visits in the analogy, a consumer receiving a subsequent extension of credit may not realize that each subsequent extension of credit operates on the terms of the master loan agreement. If a consumer chooses to get, for example, credit life and disability insurance on the master loan agreement then the consumer will have the insurance on every subsequent extension of credit even though these extensions of credit often look like new loans.

The complicated nature of the master loan agreement and subsequent extension of credit cause problems for cosigners and open consumers up to identity theft. A cosigner on the master loan agreement is a cosigner on all subsequent extensions of credit even if the cosigner did not give permission or want to be a cosigner for subsequent extensions of credit. This creates a situation where a cosigner could inadvertently be a cosigner for the life of the master loan agreement. Last, borrowers and financial institutions under multi-featured open-end lending programs are at risk for losses from identity theft because each subsequent extension of credit can be done with minimal paperwork and no verification of identity from the consumer.

Many will argue that multi-featured open-end lending programs are a convenience to consumers and allow consumers to conduct business when they are away from branches of their financial institutions. This argument had much greater impact before the widespread use of the Internet and facsimile machines. Now consumers, even those in war zones, have internet access and thus the ability to apply for credit from remote places eliminating the need to get extensions of credit under multi-featured open-end lending programs. Business can and should be conducted electronically, thus minimizing any convenience to consumers from multi-featured open-end lending programs.

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SDFCU appreciates the Board allowing comment on the proposed amendments to TILA. Should you have any questions or want to discuss our comments please contact me or the executive staff of SDFCU.

Sincerely,

J. Lance Noggle, Esquire
Regulatory Compliance Counsel