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October 3, 2007

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

Re. Docket No. R-1286 - Open End Credit Rules under Regulation Z, the Truth in Lending Act; Request for Comments

Dear Ms. Johnson:

I am writing on behalf of Corning Federal Credit Union (CFCU) which is headquartered in Corning, NY, and serves over 73,000 members throughout the country. I would like to take this opportunity to offer the following comments on the Federal Reserve Board's proposed amendments to the open-end credit rules under Regulation Z, the Truth in Lending Act.

First, I commend the Federal Reserve Board for conducting a review of Regulation Z in stages and allowing credit unions the opportunity to comment on the proposed changes. It is my belief that the experience of Credit Unions using multi-featured open-end lending for a number of years will provide valuable insight to the impact the proposed regulations would have on consumers.

Based on our reading, the proposed regulations change two fundamental concepts of multi-featured open-end lending.

1. The FRB proposal will require that each loan sub account under a multi-featured open-end lending plan must be self replenishing.
2. The FRB proposal also states that credit unions and any other lender utilizing open-end lending will not be able to underwrite specific loan transactions under an open-end lending plan.

When you combine the effect of these two fundamental changes to multi-featured open-end lending, essentially, open-end lending as currently used by credit unions may no longer be a viable method for making loan advances to members. CFCU uses open-end lending as a process that allows us to establish long-term borrowing relationships with our members. Open-end lending gives us the ability to provide loans to our members in many convenient ways including over the phone, the internet or by coming into a branch. This ability to provide the convenience members crave differs from closed-end lending, which is characterized by disclosures and processes that require loans to be closed at a branch or through the mail, thus losing the convenience members want and need.

Although the FRB's focus is mainly on credit cards, I feel it is important to point out the effect it will have on credit unions ability to provide vehicle financing. Under current regulations credit unions are able to make an advance for a member secured by a vehicle. If the member, in six months time, requests another advance under the same security, credit unions are given the opportunity to look at the member's creditworthiness to determine if it is in the member's and the credit union's best interest. Assuming no significant changes in the member's creditworthiness, the member is able to borrow up to the amount that was originally advanced. This ability to underwrite gives the credit union the peace of mind that it is not putting the member or the credit union in a financial peril by making advances without adequate underwriting.

Under the proposed amendments, credit unions would be required to self replenish the secured loan up to the amount of the original advance, without the ability to do any underwriting at the time the member makes the subsequent request. Neither CFCU nor any other credit union, in our opinion, will be willing to make such an advance without the ability to check on credit worthiness, especially on a piece of collateral that is depreciating in value. The effect of this on CFCU is that multi-featured open-end lending as we use it today will no longer be a viable option for us to use with our members. We will need to go back to closed-end lending. Our members will lose the convenience and lower costs they currently benefit from with multi-featured open-end lending.

CFCU along with other credit unions will incur substantial increased costs. Our document sets will need to change along with marketing material, staff will need to be retrained, changes may need to be made to our data processing system, as well as our internal processes, and we will need to increase staffing to accommodate the changes to closed-end lending. On average, we conservatively estimate these costs to be $150,000 to $200,000. Our members, as well as the community, will suffer as these higher costs will ultimately be passed on to them in the form of higher loan rates.

The lending landscape is extremely competitive. CFCU has responded by using multi-featured open-end lending to compete. In our market, CFCU is ranked number one for both auto loans and mortgages. Year to date, CFCU has maintained the largest market share of auto loans and this is without an indirect lending program. This just helps to point out the importance of giving consumers lending alternatives. We strive to provide our members with the best rates and excellent service and in doing so we are helping to keep competitors pricing down. As you can see, this benefits our members as well as the markets we serve. If the FRB's proposal becomes effective, our competitive position will be eroded. Our members and the markets we serve will suffer through the lack of lending alternatives and higher prices.

Beyond the convenience and quick turn around times, multi-featured open-end lending also ensures members stay well informed. Under Regulation Z, our members receive constant reminders on key financial terms such as the Annual Percentage Rate (APR) per transaction. Closed-end lending does not have a similar requirement. CFCU has members in all 50 states and in several different countries. We go to great extents to keep our members well informed and provide them with the same convenience of borrowing as if they lived locally. Multi-featured open-end lending provides our members the convenience of having a check sent to them or money deposited to their account once an application is established. Again, closed end lending does not provide this same level of convenience and will force more of our members to look elsewhere for their financing.

As I stated earlier, I do commend the FRB for conducting a review of Regulation Z in stages. Knowing that the FRB is also investigating making regulatory changes to closed-end lending as well, we are concerned that credit unions will be hit with back to back regulatory changes. If the FRB's proposed changes to open-end lending are implemented, the result will be more credit unions performing closed-end lending. Because the FRB is also investigating regulatory changes to closed-end lending the resulting actions by credit unions to remain in compliance would impact credit union's ability to serve members effectively.

CFCU generally supports the FRB's attempt to provide information to consumers in a consistent, easily readable manner. The changes should aid consumers in identifying rates and understanding important conditions related to their use of credit, facilitate comparisons of credit products, and promote responsible use of credit products. However, for all the reasons stated above, we urge the Federal Reserve Board to reconsider the proposed changes and the impact it will have on credit unions and multi-featured open-end lending. Specifically, we recommend the FRB re-evaluates its requirement that multi-featured open-end lending plans be self replenishing and its position that credit unions and others utilizing open-end lending will not be able to underwrite specific loan transactions under open-end lending.

Thank you again for giving us the opportunity to extend our formal comments on this proposed regulation. We would be happy to discuss our position and concerns in more detail.

Respectfully,

David K. Walker

David K. Walker
Director of Lending Operations
Corning Federal Credit Union