From: "Stacy Augustine" <saugustine@waleague.org> on 10/11/2007 06:20:02 PM

Subject: Truth in Lending

October 11, 2007

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

RE: Proposed changes to Regulation Z, Docket R-1286

Dear Ms. Johnson,

The Washington Credit Union League ("League") respectfully submits its observations to the Federal Reserve Board of Governors regarding its proposed changes to Regulation Z, interpreting the federal Truth in Lending Act.

The League is the trade association that represents the 133 credit unions in Washington State. On behalf of those credit unions, the League believes that the promulgation of regulations that equitably balance the need to protect consumers without creating an undue burden on financial service providers will best serve the needs of both consumers and the credit unions that serve them.

Appreciation for the Board's Deliberative Rulemaking
The League supports most of the changes proposed by the Board. They have been well thought through and provide information to consumers in a more timely, consistent, and easily understandable format so that consumers can truly make informed decisions.

The new table format required for account opening disclosures will assist consumers in understanding the true cost of the credit. The table will enable easier comparison between the offerings of rival financial institutions. Increasing the ease of comparison will lead to more honest competition and therefore better programs for consumers.

The updates to the change in terms notices also provide the consumer with more easily understood information, in a timelier manner. The new table format presents vital information in a configuration that the consumer can evaluate at a glance, without having to read through a great deal of text. The current disclosure format simply does not provide meaningful information to consumers. However, we believe that the new table would provide even more valuable information if it were required to contain former terms such as the current APR and the APR effective 1/1/2008.

Concerns Regarding Effective APR
The Board's proposed regulation offers two alternatives concerning the disclosure of an effective APR to consumers. The first of these alternatives would require creditors to include certain fees and charges in the calculation of the consumer's effective

statement APR. The League believes that the consolidation, for disclosure purposes, of finance charges and other charges may create consumer confusion unless they are very carefully labeled. Because lenders are required to disclose their rates in advance, these rates may differ from the effective rates disclosed to the consumer on their periodic statement under the proposal. For example, if promised a loan rate of 12 percent, consumers will be confused and angered if their periodic statement discloses an actual APR of 26 percent (owing to cash advance fees). While consumers have a right to know about possible charges before they are levied against an account, we believe that the disclosure of an effective APR will actually result in greater confusion.

The second alternative proposed by the Board would eliminate the use of the effective APR. Between the two alternatives, the League would advocate the later (again, unless the effective APR is very clearly labeled and explained to the consumer).

Substantive Concerns Regarding the Redefinition of Open-Ended Credit
The League has significant concerns with the Board's redefinition of open-ended credit. The Board's redefinition of open-ended credit will have a substantive, negative impact on Washington's credit unions. Within the financial services field, multi-featured open-ended lending plans are primarily used by credit unions. Banks use these plans occasionally, but open-ended ("umbrella") credit plans have been embraced by credit unions to the extent of becoming a standard credit union practice in place for the past 25 years. On a national level, approximately 3,500 credit unions use multi-featured open-end lending plans as their principle means of lending.

Credit unions are not-for-profit financial institutions whose primary mandate is to serve their members. This means that credit unions have a vested interest in offering quick turnaround, convenience, and low rates to their members who borrow money. Multi-featured open-ended lending meets all of these goals.

Open-ended lending minimizes application paperwork because the member need only complete one application, and need only make one in-person visit to the credit union. This becomes particularly important when you realize that few credit unions have a comparable branch structure to for-profit banks. Credit union members retain their membership—often from across the country. In order for long-distance members to engage in strictly closed-end lending with the credit union, loan documents would need to be mailed between the credit union and its member for each loan. In addition to the potential security risk of sending confidential and sensitive information through the mail, if the current form of open-ended lending is eliminated, it seems more likely that members will turn to higher priced, but more convenient local lenders for their loans.

Credit union loan rates have consistently been shown to be less than those of other lenders. For example, a CUNA survey done in 2006 showed the average auto loan interest rate from credit unions to be 5.93 percent, while banks and thrifts charged an average of 7.41 percent.

Further, those who borrow from a credit union are necessarily members of that credit union, and membership in a credit union has been shown to be worth an average of $180 per household per year (CUNA, 2006). In fact, financing a new $25,000 automobile for 60 months at a credit union versus a bank would save the member an

average of $224 a year, or more than $1,000 over the life of the loan (CUNA, 2006).

We wanted to share these statistics with the Board, because it is our earnest belief that the Board's proposed changes to the definition of open-ended lending will cause credit unions to shift to mostly closed-end lending, which will significantly hamper credit unions' ability to serve their members, and the loss of services to members will be costly and detrimental.

Even setting aside the high costs of switching to a closed-end program (which include costs associated with changing the credit union's IT systems, and loan forms, as well as costs associated with internal processes, training, and data processor conversions), allow us to share a prominent example of how this change will affect consumer loan rates: Working with local car dealers, many credit unions offer indirect lending programs. These programs allow a member to purchase a vehicle at an automobile dealership using credit union financing. At best, the elimination of current credit union open-ended lending systems will drive consumers to dealers' captive financing companies, resulting in higher vehicle loan rates to the consumer.

We recognize that our wide-spread use of open-ended lending and the significant impact that the elimination of most credit union open-ended lending products would not outweigh harm to consumers, however, harm to consumers has not been shown. Rather, the opposite is true. Credit unions continue to see very low delinquency rates (in fact in 2006 credit unions had a loan delinquency ratio of 0.68 percent while banks' ratio was 0.79 percent according to a CUNA report), and satisfaction among credit union members is high: 71 percent of credit union members were "very satisfied" according to a 2005 American Banker/Gallup poll. By allowing credit unions to offer easily accessible loans to their members, consumers are provided with lower-rate alternatives from cooperative financial institutions acting in the consumers' best interests.

Perhaps a better solution would involve a compromise. For example, the Board could choose to allow credit unions to keep the benefits of their multi-featured open-ended loan plans, but add additional disclosures for those advances that are individually underwritten. These disclosures could mirror those required under closed-end lending: number of payments, length of time to pay off, total dollar amount of payments. They would therefore provide consumers with more comprehensive information, while still allowing credit unions to continue serving their members efficiently.

Model Disclosures

In reviewing the model Credit Card Application and Solicitation disclosure (G-10(B)) and the model Account-Opening disclosure (G-17(B)), we note that these forms are extraordinarily similar. We would encourage the Board to make the forms identical, or allow lenders to use just one of the forms. Having two forms of this type that are extremely similar will likely be confusing to both employees and consumer borrowers.

Implementation Deadlines

With respect to the implementation of the proposed rule, the League urges the Board to consider a two-year implementation period following the promulgation of its final Reg. Z rule. The League believes this longer period will be necessary to provide

adequate staff training, make necessary data processing changes, amend existing loan forms, etc.

The League appreciates the opportunity to comment on the Board's proposed changes to Regulation Z. We believe that the Board has done an admirable job of addressing possible consumer confusion with its proposed changes to disclosure content, timing and format, and believe that the changes proposed will provide information to consumers in a clearer format.

Thank you for your time and consideration.

Sincerely,

Mary Sroufe
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