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Sent via e-mail to: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

October 11, 2007

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

Subject: **DOCKET NO. R-1286; REGULATION Z**  
**Board of Governors of the Federal Reserve System (the "Board")**  
**Proposed rule; request for public comment (the "Proposed Rule")**

Dear Ms. Johnson:

Thank you for allowing us the opportunity to comment on the Board's proposed changes to Regulation Z. First Hawaiian Bank is a \$12 billion FDIC-regulated institution with 57 branches in Hawaii, 3 in Guam and 2 in Saipan. We offer a full line of banking services including numerous deposit, loan and credit card products.

We are fully aware of and support the Truth in Lending Act (TILA) and its intent to (1) require lenders to provide borrowers with meaningful disclosures of credit terms to allow them to compare credit terms available in the marketplace and avoid the uninformed use of credit, and (2) protect consumers against inaccurate and unfair credit billing and credit card practices. We also support the Board's efforts to improve the effectiveness of the disclosures provided by creditors throughout the life of an account. However, we are concerned that the comprehensive nature of the proposed changes will have a considerable adverse impact on financial institutions and believe that the Board can achieve its goals while minimizing the costs and burden of compliance. Therefore, we urge the Board to consider the concerns described below before finalizing any changes to Regulation Z.

- 1. Formatting requirements for application and solicitation disclosures should provide sufficient flexibility to allow financial institutions to minimize any adverse impact resulting from the new requirements.** The Proposed Rule provides for a revised tabular format for application and solicitation disclosures and sets forth which terms must be included in the disclosure table. We wish to stress that, similar to most institutions, revising the format of our existing forms and disclosures is a burdensome and costly process. For example, we estimate that the cost to reformat and redesign our ten consumer credit card applications alone will be greater than \$25,000.

In addition, our disclosures currently fit on one panel of our application brochure. Should the revised requirements necessitate an additional panel, the cost of reformatting and implementing such changes will increase significantly. Therefore, we recommend that any formatting changes in the final rule provide financial institutions with sufficient flexibility to avoid such problems and to minimize the impact and costs incurred.

Similarly, our current solicitations utilize a horizontal table that allows us to provide the required disclosures on one page. If, however, we are required to use a vertical table as presently proposed, we would no longer be able to fit all of the required disclosures on one page and would require additional pages. Based on our current practices, we estimate that the need for additional pages for our solicitations will result in increased costs for reformatting, printing, and postage in excess of \$10,000 per year. We believe the difference between the understandability of the proposed vertical format and our present horizontal format is negligible and does not justify imposing such costs and expenses on all financial institutions. We have not received any indication from our customers or from the examiners that have reviewed our solicitations that our disclosures are confusing or inadequate in any way. Therefore, we are opposed to the requirement that a vertical table be used to display the applicable disclosures.

- 2. Financial institutions should be allowed to disclose the applicable APRs at account opening on a separate page.** Our understanding of the Proposed Rule is that creditors must disclose the specific APRs that will apply to the account at account opening and that the APRs must be presented in the tabular format set forth in the regulation. However, since our variable interest rates and APRs may change on a quarterly basis, it would be difficult and burdensome to maintain updated account opening disclosures with current APRs. Our current practice is to provide the terms and conditions for the account and most of the required account opening disclosures in our standard account agreement, which we can easily keep in supply. The applicable APRs, however, are provided on a separate insert (i.e., a "buck slip") that we include with the disclosures. Using the buck slip allows us to easily update the applicable APRs without the need to constantly reprint and destroy our account agreements containing the rest of the required disclosures. In fact, our experience is that having the applicable APRs disclosed on a separate, noticeable insert helps the consumer to easily find and identify the applicable APRs.

Therefore, we strongly urge the Board to consider accommodating such practices in the final regulation. Allowing financial institutions to continue such practices will significantly reduce the cost and expense of compliance and will not, we believe, compromise the understandability of the disclosures.

- 3. Formatting and disclosure requirements for periodic statements should provide sufficient flexibility to allow financial institutions to minimize any adverse impact resulting from the new requirements.** Similar to the proposed requirements for application and solicitation disclosures, the implementation of the proposed changes for periodic statements will be a very burdensome and expensive process. This is especially true in our case where we rely on a third party vendor, one of the largest credit card processors in the nation, to process our periodic statements. In such cases, formatting changes must be implemented through a work order process that can take several months to complete. Based on our past experiences with our third party vendor, we estimate the cost of making the proposed changes to our periodic statements will be well over \$150,000.

In addition, we anticipate that the proposed formatting changes will require more statement pages per cardholder, increasing the ongoing cost of processing the statements (approximate increase of \$58,000 per year) and postage (approximate increase of \$264,000 per year).

- 4. The proposed 45-day notice period for interest rate increases due to a consumer's default or delinquency should be eliminated or, in the alternative, shortened or allowed prior to the increase taking effect (i.e., a warning notice).** The Proposed Rule requires creditors to provide 45 days notice when a rate is increased due to a consumer's delinquency or default. We are strongly opposed to this requirement, as we believe it unfairly prejudices financial institutions by increasing the time period during which they must allow their delinquent customers to remain in default.

The terms relating to our default rate are already clearly disclosed in the application and account opening disclosures. In addition, we do not impose our default rate until after a customer misses two consecutive payments (effectively providing a 60-day default period). Our customers are further warned of their delinquent status in their periodic statements. We believe that an additional 45-day notice period is unfair to financial institutions such as ours that already provide a reasonable default period for customers and adequate warning of default. Such a requirement would effectively negate our current default rate, which is meant to encourage consumers to keep up with their payments. Therefore, we believe that institutions that provide a reasonable default period and adequate warning during this period should be allowed to continue their existing practices, as these practices are not inconsistent with the goals behind the proposed changes.

If the Board chooses to require an advance notice period, we urge the Board to consider a shorter notice period—for example, fifteen days. In the alternative, the Board should allow creditors to provide a warning notice prior to a potential rate increase taking effect (even if the consumer may eventually make payment such that the rate increase becomes unnecessary). This would allow institutions that provide a reasonable default period to impose the rate increase immediately upon the expiration of the default period. For example, a thirty-day notice requirement that is allowed during the default period (prior to the rate increase taking effect) would allow us to provide a warning notice with the first monthly statement during default and impose the rate increase upon expiration of the 60-day default period (following the second statement during default and starting with the next billing period).

- 5. Institutions should be allowed to continue to include “change in terms notices” with their periodic statements on a separate page. The proposed requirement that such notices be included on the first page of the statement should be eliminated.** The Proposed Rule requires that if a notice of a change in terms is included on or with a periodic statement, the required information must be disclosed on the first page of the periodic statement. This requirement will substantially increase the cost of providing such notices. Usually, we provide our change in terms notices with our periodic statements on a separate sheet of paper. This allows us to print and modify the notices independently from the statements. This is extremely important for us because our periodic statements are processed by a third-party vendor and reformatting our statements (for example, to include a change in terms notice) requires a work order and generally takes two to three months to implement. Consequently, it would be impractical for us to include such notices on our periodic statements and a separate mailing would be required. We anticipate that separate mailings to all of our cardholders would cost over \$85,000 each time a notice is required. Thus, we are strongly opposed to the requirement that such notices be included on the periodic statement and urge the Board to continue to allow creditors to provide such notices with their periodic statements on a separate page. We believe that notices on a separate page will be just as conspicuous to consumers, especially since the Proposed Rule already requires such notices to be in a tabular format.
- 6. The disclosure of the “effective APR” should no longer be required.** The Board has requested comment on whether the disclosure of the effective APR should be required. As the Board has pointed out in its Proposed Rule, there are many circumstances in which the effective APR can be grossly exaggerated and misleading to consumers. We agree that the effective APR often does not provide an accurate picture of the credit terms and may result in uninformed decisions by consumers. Therefore, we urge the Board to remove the present requirement that creditors disclose the effective APR.
- 7. The Board should provide ample time for financial institutions to implement any changes to the final regulation.** As discussed, we anticipate that the implementation of any changes will require significant time and effort. This is especially true where we must reformat disclosures and documents processed by third-party vendors. For example, one of our major vendors has recommended a minimum implementation period of twelve months with implementation occurring at the beginning of the calendar year and not during November or December (during peak holiday processing). The Board should also consider releasing the changes incrementally to reduce the burden on financial institutions.

We respectfully urge the Board to consider our abovementioned concerns before finalizing any changes to Regulation Z. The Proposed Rule would have a considerable adverse impact on all financial institutions, regardless of existing credit practices. We wish to point out that many institutions such as ours rely heavily on reputation and established goodwill with our customers. Consequently, it is and always has been in our best interest to clearly disclose our credit terms to our customers so that they can make educated choices and to avoid the types of abuses that the Board is attempting to prevent. While we fully support the goals of the Board to protect consumers from such abuses, we urge the Board to allow financial institutions such as ours that do not engage in such practices the flexibility to maintain compliance without incurring undue costs and expenses. If the proposed changes result in substantial implementation and operational costs, it will become more difficult for financial institutions to continue to provide financial services at an affordable cost to their customers and much of these costs may eventually be passed on to consumers.

Thank you for consideration of our comments. If you have any questions or would like additional information, please feel free to contact the undersigned at 808-844-3663.

Sincerely,

FIRST HAWAIIAN BANK



Joyce W. Borthwick  
Senior Vice President & Chief Compliance Officer  
Corporate Compliance Division