

From: Valerie Truelove <vtruelove@scfederal.org> on 10/12/2007 11:20:01 AM

Subject: Truth in Lending

Our comments on the proposed Truth in Lending (Regulation Z) open end credit revisions are listed below.

Periodic statement disclosures

The proposal contains revisions to make disclosures on periodic statements more understandable, primarily by making changes to the format requirements, such as by grouping fees, interest charges, and transactions together. The proposed changes include:

- Itemizing interest charges for different types of transactions, such as purchases and cash advances, and providing separate totals of fees and interest for the month and year-to-date.
- Modifying the provisions for disclosing the “effective APR,” including format and terminology requirements to make it more understandable. Because of concerns about the disclosure’s effectiveness, however, the Board is also soliciting comment on whether this rate should be required to be disclosed.
- Requiring disclosure of the effect of making only the minimum required payment on repayment of balances (changes required by the Bankruptcy Act).

We agree that the effective APR should be eliminated and feel that disclosing the totals of fees and interest can serve the same purpose. It is easier for a consumer to understand the fees they incur for a particular type of transaction than it is to understand the effective APR. Requiring that both the itemized fees and charges along with the effective APR be disclosed, will simply be too confusing and overwhelming to the consumer.

Changes in consumer’s interest rate and other account terms

The proposal would expand the circumstances under which consumers receive written notice of changes in the terms (e.g., an increase in the interest rate) applicable to their accounts, and increase the amount of time these notices must be sent before the change becomes effective. The proposed changes include:

- Generally increasing advance notice before a changed term can be imposed from 15 to 45 days, to better allow consumers to obtain alternative financing or change their account usage.
- Requiring creditors to provide 45 days’ prior notice before the creditor increases a rate due to the consumer’s delinquency or default.
- When a change-in-terms notice accompanies a periodic statement, requiring a tabular disclosure on the front of the periodic statement of the key terms being changed.

We agree with an increase in the advance notice but feel 30 days is more appropriate than 45 days and is more in line with other regulatory notice requirements. However, we do not agree that the notice should be required before implementing an increase due to delinquency or default. If a rate increase is disclosed up front due to delinquency or default and we are required to

provide monthly statements that disclose the payment amount and due date, this is more than enough notice to the consumer that a payment is due. If the payment is not made, the creditor should have the right to implement a rate increase without providing 45 days notice.

Advertising provisions

The proposal would revise the rules governing advertising of open-end credit to help ensure consumers better understand the credit terms offered. These proposed revisions include:

- Requiring advertisements that state a minimum monthly payment on a plan offered to finance the purchase of goods or services to state, in equal prominence to the minimum payment, the time period required to pay the balance and the total of payments if only minimum payments are made.
- Permitting advertisements to refer to a rate as “fixed” only if the advertisement specifies a time period for which the rate is fixed and the rate will not increase for any reason during that time, or if a time period is not specified, if the rate will not increase for any reason while the plan is open.

We do not agree with requiring that advertisements include the time period to repay a balance and the total of payments if only minimum payments are made when the ad includes a minimum payment. This is easily avoidable by ensuring that ads do not include minimum payments, therefore, this requirement would not accomplish anything.

We also do not agree with the proposed change when stating a rate is fixed in an advertisement. Rates can change for any number of reasons such as when the consumer is in default or delinquent, when their credit rating changes, when the market conditions change, etc. The intention is for the rate to be fixed and not variable, however, there may be situations that warrant a rate change. It is impossible to provide a time frame that the rate will not increase in some situations.

Bottom line is that if we provide the details we are currently required to provide according to Regulation Z along with the proposed changes to for account opening and applications/solicitations, the remaining proposed changes are not necessary. They impose more cost for creditors to implement without sufficient benefit, which could result in higher costs for credit. This should be what we are trying to avoid in the current market conditions, especially for credit unions that serve the underserved.

“Open-end” plans comprised of closed-end features

Some creditors give open-end credit disclosures on credit plans that include closed-end features, that is, separate loans with fixed repayment periods. These creditors treat these loans as advances on a revolving credit line for purposes of Regulation Z even though the consumer’s credit information is separately evaluated and he or she may have to complete a separate application for each “advance,” and the consumer’s payments on the “advance” do not replenish the “line.” Provisions in the commentary lend support to this approach. The proposal would revise these provisions to indicate closed-end disclosures rather than open-end disclosures are

appropriate when the credit being extended is individual loans that are individually approved and underwritten.

Implementing the proposed change to open end lending will result in an inconvenience to consumers. Although an open end plan does not replenish an existing line, the plan is established to provide convenience to the consumer when the time comes for a loan advance. The regulation currently requires up front disclosures and statements for each billing cycle to inform consumers of the loan details and the underwriting of each advance ensures the safety and soundness of the financial institution.

This change would also require changes to current processes that credit unions use for loans, which includes procedural changes, system changes, and re-training of all applicable employees. In reading the comments posted by consumers on the Federal Reserve website for the proposed changes, it appears the biggest issues come from credit cards and credit card practices. This proposed change would have no bearing on improving the issues that consumers currently have with credit cards.

We hope you consider the impact that all of the proposed changes will have on financial institutions of all sizes and realize and implement only the ones that are necessary to address the current concerns of consumers, while limiting the duplicate information.