PENNSYLVANIA
CREDIT UNION
ASSOCIATION

4309 North Front Street
P.O. Box 60007
Harrisburg, PA 17106-0007
www.pcua.coop

October 11, 2007

Ms. Jennifer L. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Sent Via Email

RE: Proposed Rule – Regulation Z; Docket No. R-1286

Dear Ms. Johnson:

The Pennsylvania Credit Union Association (PCUA) appreciates this opportunity to provide comments to the Board of Governors of the Federal Reserve (Board) on its proposed rule amending the open-end credit rules in Regulation Z, which implement the Truth in Lending Act. The PCUA is a statewide trade association that represents nearly 84% percent of the approximate 504 credit unions located within the Commonwealth of Pennsylvania.

To respond to the Board's request for comment, the PCUA consulted with its Regulatory Review Committee (the Committee). The Committee consists of twelve (12) credit union CEOs who lead the management teams of Pennsylvania's federal and state-chartered credit unions. Members of the Committee also represent credit unions of all asset sizes. The comments contained in this letter reflect the input of the Committee and PCUA staff.

General Comments:

Historically, credit unions in Pennsylvania have offered lower rates and fewer fees on credit card products than other types of financial institutions. Further, credit card products offered by Pennsylvania credit unions do not typically include the complex pricing structures, fees and penalties that are associated with credit card products offered by the larger U.S. credit card issuers as identified in the GAO's September 2006 report entitled, *CREDIT CARDS Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers* (GAO-06-929) ("GAO Report").

This year, PCUA conducted a survey of the 290 credit card programs offered by our member credit unions.[1] Pennsylvania credit unions, on average, charge lower purchase and default interest rates and lower late and high balance fees than the average rates and fees reported in the

[1] More specific information regarding PCUA's 2007 survey is available to the Federal Reserve Board upon request.

GAO Report. A customized analysis of loan products offered by Pennsylvania credit unions performed by the Credit Union National Association in June of 2007 showed similar results.[2]

In addition, Pennsylvania credit unions offering credit card products under our credit card program do not engage in the practice of implementing default rates for consumer's performance with another creditor and few members engage in the practice of allocating payments to lower APR balances prior to applying them to older balances. Further, the rates and fees charged by our members typically are not tiered based upon the amount or type of balance.

The members of our Committee appreciate the Federal Reserve Board's objective to provide consumers with disclosures in formats that improve the ability of consumers to understand the terms and conditions of the credit being offered and extended to them. We generally support the new disclosures proposed by the Federal Reserve. We believe that the new format of the various open-end disclosures discussed in the proposal will benefit both consumers *and credit unions* by improving the clarity and understandability of open-end credit disclosures, enhancing the ability of consumers to make informed credit decisions.

Multi-Featured Open End Plans:

The aspect of the proposed rule that drew the most criticism is the Board's proposal to amend its commentary to Regulation Z that affects the ability of credit unions to offer multi-featured open-end plans.

In the proposal, the Board indicates that it has from time to time received comments from state attorneys general and consumer groups over "spurious" open-end credit plans that would be more properly characterized as closed-end credit. In casting a wide net to capture and eliminate the "spurious" plans, the Board is also eliminating the ability of credit unions to use multi-featured open-end plans to serve their members.

We strongly request the Board to reconsider its proposal to eliminate the ability of credit unions to serve their members using multi-featured open-end plans. Regulation Z is a consumer protection rule. This aspect of the proposal works exactly opposite to the detriment of consumers.

We join our credit union colleagues and business partners in stating that the proposal to eliminate the use of multi-featured open-end accounts by credit unions across the country will:

- Increase expenses to credit unions that will necessarily be passed onto consumers.
- Create less competition, which will mean higher prices for consumers.
- Lead to decreases in member services.

[2] A copy of the customized analysis can be made available to the Federal Reserve Board upon request.

There is no indication that consumers have been harmed by credit unions that use multi-featured open-end accounts. To the best of our knowledge, consumers have not complained about the activities of their credit unions. To the contrary, we submit that credit union members benefit from the ability of the credit union to view their relationships with their members as a whole.

Multi-featured open-end plans offered by credit unions differ from "spurious" open-end credit plans on significant points. The Board notes in the proposal that the "spurious" open-end credit plans are unlikely to be used for repeated transactions and that the credit line does not replenish to the extent that the consumer pays down his or her balance. "Spurious" open-end plans are typically associated with one transaction between the consumer and the lender.

The relationship between credit unions and their members is predicated on the understanding that credit unions strive to maintain long term financial relationships with their member owners (and their families). The multi-featured open-end plans established by credit unions to encourage and support that objective differ significantly from the "spurious" plans targeted by the proposal. Multi-featured open-end plans allow credit unions to provide convenient service to their members so they return time and time again to use the credit union's products and services.

Credit unions are leaders in supporting and providing financial education programs to consumers. Paramount to the credit union mission is the idea that credit unions assist their members in building financial wealth. The multi-featured open-end plans enhance a credit union's ability to access the overall financial picture of its members and allow credit union's to provide meaningful consultation and service to them. Although a particular sub-account under a multi-featured open-end account with a credit union may not individually replenish, the members' ability to receive additional and ongoing extensions of credit from the credit union is the goal of both the credit union and the member.

Multi-featured open-end plans facilitate repeat business between the credit union and its members by stream lining the loan process. Credit unions are able to quickly process requests for credit through the established account and the member is only required to come into the office once (or not at all) to pick up their check or papers. Members are able to obtain approval within twenty-four hours and sometimes on the same day.

Multi-featured open-end plans are good for consumers and consumers understand the disclosures provided to them in conjunction with these accounts. Several of our member credit unions have offered these types of plans to their members for years. Because of the ease of administering multi-featured open-end plans, credit unions are able to offer expedited service at low costs and also provide members with disclosures that more accurately reflect the terms of credit being offered.

For example, some of our member credit unions provide members with "auto drafts" that approve the member for an automobile loan up to specified amounts and at various interest rates depending upon the final purchase price and other characteristics of the automobile. The final terms of the loan are disclosed when the "auto draft" clears the credit union. By providing this service, our member credit unions offer the convenience sought by its members, and therefore, do not lose the members' business to other lenders who are on site at the time of purchase.

Some of our member credit unions, who have employee based fields of membership, have members all over the country and in underserved or remote areas. The elimination of multi-featured open-end plans will make it more difficult and less convenient for our credit unions to serve those members.

Finally, if the proposed rule is adopted, credit unions will incur significant costs in revamping their lending programs, underwriting processes and loan documents to comply with the new regulation. As noted in the proposal, the Board intends to address closed-end rules in the next stage of review of Regulation Z. We respectfully submit that it would be irresponsible to require credit unions to completely redesign their current lending programs only to have to completely revise them again after the closed-end rules are finalized. If the Board continues to believe that multi-featured open-end plans as administered by credit unions should be eliminated, we ask that the Board delay the effective date until the closed-end rules are finalized so these significant costs to credit unions are not duplicated.

The effective APR:

As noted in the proposal, the "effective" APR disclosure disclosed on periodic statements reflects the cost of interest and certain other finance charges imposed during the statement period. The Board requested comment regarding whether it should try to improve consumer understanding of this rate or whether it should eliminate the requirement to disclose the effective APR.

The members of our Committee all agreed that the APR is confusing and misleading to consumers and should be eliminated. The new formatted disclosures included in the proposal are clearer and will provide consumers with the information they need to make informed decisions with regard to their credit card accounts.

Two-cycle average daily balance method:

The Board believes that it is no longer appropriate to continue to disclose the balance computation method in the table, because the name of the balance computation method used by issuers does not appear to be meaningful to consumer without additional context and may distract from more important information contained in the table. The Board proposes to continue to require that issuers disclose the name of the balance computation method beneath the table, so that consumers and others will have access to this information if they find it useful.

Even though we recognize that Regulation Z is a disclosure regulation, some members of our Committee believe that the "two-cycle average daily balance method" of computing the balance should be prohibited. Accordingly, we submit that it is important that the disclosure provide that this type of balance computation method is more expensive than the average daily balance method if the two-cycle average daily balance method applies and the consumer does not pay the balance in full.

Additional Comments:

In closing, PCUA staff would like to reiterate, as an aside, that consumer fraud and abuse continues to play a significant role in increasing the cost of open-end credit to consumers. In general, PCUA is concerned that unless electronic payment associations, such as VISA and MasterCard, are required to more strenuously enforce and police their operating rules against merchants by requiring them to purge the magnetic strips containing confidential consumer account information from their systems, consumers will continue to be financially harmed and inconvenienced by hackers that obtain credit card information for illegal purposes, and credit unions will continue to experience losses and incur unnecessary costs caused by fraudulent transactions.

Consumers should be apprised that it is not only the credit card issuers' responsibility to monitor and protect their accounts from fraud and abuse but that merchants and electronic payment associations need to also take responsibility in keeping the costs of open-end credit affordable for consumers.

Thank you again for this opportunity to provide comments. Please feel free to contact me or any of the PCUA staff at 1-800-932-0661 if you have any questions or if you would like to discuss the contents of this letter.

Sincerely,

Pennsylvania Credit Union Association

Laurie S. Kennedy

Laurie S. Kennedy
Associate Counsel

LSK:llb

cc: Regulatory Review Committee
J. McCormack
R. Wargo
J. Kilduff
M. Dunn, CUNA