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Comments:
RE: Docket # R-1286 Regulation Z, Truth in Lending Credit unions are the one lender who consistently look out for the best interests of their members in the lending arena. This is reflected in how we pay higher rates on savings, charge lower rates on loans and credit cards, as well as provide counseling during the application process and educational opportunities through seminars. “Open-end” lending allows credit unions to offer excellent service, convenient lending, and good rates in order to build long term relationships with their members. We agree that there are many lenders who abuse consumers through such practices as universal default clauses, two-cycle average daily balance interest calculations, and high fee/interest rate payday lenders. Additionally, the practice of using a low number of grace days in conjunction with the financial being slow to mail periodic statements effectively allows the consumer as little as seven to ten days before the due date to mail payments and the financial to post them without incurring late charges. However, there is also no substantial evidence that credit unions as lenders engage in any of these practices due to their focus on service and benefits to their members. The Federal Reserve Board is proposing many important changes to help consumers benefit and become more informed in the lending process. However, we believe the proposal to change the “open-end” plans comprised of closed end features is an exception to these benefits. Over 3,500 credit unions use the open-end lending plans to provide convenience to our members while helping to reduce the cost of providing these loans to our membership. Several of the proposed changes to open-end lending would effectively stop the use of this type of lending by credit unions and put them at a competitive disadvantage. They are: 1) Adding additional disclosures with each new advance. Many of our members who have enjoyed the convenience of accessing credit via the phone, internet and fax would now have to find additional time to apply. 2) Requiring signatures before each new advance under the plan. Many members enjoy the simplicity of

having funds disbursed to their savings or checking account or directly to a dealer without having to find time to visit a branch to sign documents or wait for the delay of mail to receive, sign and return documents as they would with closed end lending. 3) Eliminating the underwriting capabilities before each new advance. This change would increase the risk to the credit union as a whole since we would not be able to reassess the member's ability to repay the loan, their credit worthiness or the ability to assess the adequacy of the collateral to secure a collateralized loan, especially with depreciating assets such as a car. The net result of this would be less loans granted to our membership. Additionally, if the credit union would have to switch from "open-end" lending to "closed-end" lending, the impact on operations would effectively be to increase the cost of loans due to the re-training of personnel, changing and certifying compliance of lending documents, retooling of data processing systems and the potential need to increase staff to accommodate the increased amount of time of the lending process. Credit unions, as an industry, have been shrinking at roughly 300 credit unions per year. A majority of these are small credit unions that find it difficult to meet the costs associated with all of the new regulatory changes in recent years. If many of these smaller credit unions have to switch from "open-end" lending to "closed-end" lending, this may prove to be too high of an expense for them. Additionally, the reduction of the number of low cost lending providers may inadvertently push more consumers to the unscrupulous payday lenders, sub prime lenders, and high cost credit card providers. Many consumers continue to consummate loans with payday lenders who disclose and charge exorbitant fees and APRs due to the convenience and quick accessibility of funds. We believe the elimination of "open-end" lending will put credit unions at a further competitive disadvantage to these types of lenders. We believe it is extremely unfair to penalize and adversely impact the only group of lenders, credit unions, which consistently demonstrate their willingness to look out for their member in all types of financial transactions. Our goal, along with yours, is to help the consumer to navigate through the very treacherous lending waters that exist in today's lending environment to the best of their ability without being taken advantage of by unscrupulous lenders. We respectfully request that you let us continue our mission of being a convenient, low cost lender to our membership by not restricting our use of "open-end" loan plans.