ZIONS BANCORPORATION

Corporate Compliance
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April 8, 2008

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

Re: Docket No. R-1305
Proposed Rule – Truth in Lending, Regulation Z

Ladies and Gentlemen:

Zions Bancorporation appreciates this opportunity to provide comments on the Proposed Rule related to Truth in Lending, Regulation Z, that was published in the Federal Register on January 9, 2008.

Our institution is a $53 billion-dollar financial services company with banking offices located in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah and Washington. Our affiliated banks engage in financial activities that are directly affected by the proposed Regulation Z rules.

We would first like to say that we appreciate the Federal Reserve Board's efforts to stop the abuses in the subprime lending market that have had such an impact on our economy in general and the financial services sector in particular. However, the amendments to Regulation Z that the Board has proposed to do this will be of no value unless the non-bank financial firms, who were largely responsible for the abuses, are held to the same type of regulatory oversight of their lending practices as federally insured depository institutions.

We would like to submit comments on the proposed rules as follows:

Definition of "Higher-Priced Mortgage Loan" – The definition of "Higher-Priced Mortgage Loan" should be amended to include only subprime loans.

If the definition is not amended to include only subprime loans, then the proposed definition should exclude one-time close construction loans. We believe these loans should be excluded for the same reason that construction-only loans are proposed to be excluded, i.e., they do not present the same risk of consumer abuse as other loans the proposal would cover. In addition, if one-time close construction loans are not exempted, we have additional concerns related to one-time close construction loans regarding the APR used to determine coverage as well as the applicability of prepayment penalties that we are including under related topics below.

APR Thresholds of 3 and 5 Percentage Points – We believe that thresholds of 4 and 6 percentage points would be a far better measure for capturing subprime loans and excluding the prime loan market.

The proposed thresholds of 3 and 5 are not high enough to prevent the misclassification of prime VA, FHA, and many special CRA related products that require mortgage insurance. The addition of mortgage insurance, monthly FHA premiums and/or a VA funding fee as prepaid finance charges on prime loans has a large impact on the APR and may result in the misclassification of many of these loans as "Higher-Priced Mortgage Loans".

We also believe that the proposed thresholds may not be high enough on a go-forward basis to prevent the misclassification of many conventional loans. As a result of the subprime crisis, Freddie Mac and Fannie Mae have increased delivery fees across the board and specifically for borrowers with certain high-risk characteristics who are still considered "prime" borrowers. These delivery fees are passed on to borrowers by lenders in the form of higher interest rates.

Another category of loans that may be misclassified are "no cost" loans where the borrower chooses a higher interest rate in order to avoid having to pay out of pocket closing costs that would not be included as a prepaid finance charge in calculating the APR such as title costs, appraisal, credit reports, hazard insurance, flood insurance, and reserves for the payment of future taxes and insurance.

Yet another category of loans that may be misclassified if not specifically excluded from the definition of a "Higher-Priced Mortgage Loan" are one-time close construction loans. Under Regulation Z, a lender has the option of disclosing these loans by providing either one combined disclosure or by providing two disclosures – one for the construction phase and one for the permanent loan phase. If two disclosures are provided, what APR would a lender use to determine if the loan is a "Higher-Priced Mortgage Loan"? The construction phase affect on the APR in a combined disclosure is minimal. However, the APR on a construction only phase disclosure is inflated due to the affect of the construction related fees and a relatively short construction phase.

Use of Treasury Securities for Determining "Higher-Priced Mortgage Loans"– We are concerned about the use of the yield on comparable Treasury securities as the basis for determining coverage under the "Higher-Priced Mortgage Loan" rules. We do not believe the use of Treasury securities is an accurate measure of rates in the mortgage market. The volatility of the Treasury market vs the mortgage market could increase the coverage of many prime loans. We feel a better measure of the actual cost of funds as it relates to the mortgage market is the LIBOR indices.

Underwriting, Escrow and Prepayment Penalties for a "Higher-Priced Mortgage Loan" – These limitations should not apply to prime borrowers. In addition, the final rule should include specific definitions covering the meaning of the terms income, debt, living expenses and residual income and guidance regarding what must be done in order to consider these factors. Also, it would be helpful if the final rule provided examples of what constitutes a "pattern or practice" of failing to consider a borrower's ability to repay a loan.

The limitation on prepayment penalties should not apply to one-time close construction loans. When a borrower enters into a one-time close construction loan agreement with a lender, the lender generally enters into a contract with an investor to deliver the loan to the investor at the end of the construction period. If the lender does not deliver the loan because the borrower paid off the loan at the end of the construction period, the lender must still pay the investor a non-delivery fee. Many lenders include a prepayment penalty clause in their one-time close construction loan agreements to cover this non-delivery fee. If lenders are prohibited from assessing a prepayment penalty on one-time close construction loans, many lenders may discontinue offering this type of loan product.

Broker Disclosures and Fee Agreements – We agree with the requirements proposed. However, we believe that the final rule should include guidance regarding a financial institution's responsibility for determining if a broker fee agreement was delivered to the applicant within the required timeframe. We also believe the fee restrictions should apply to all loans and not just those defined as "higher-priced mortgage loans".

Regarding the comment request on whether or not it is appropriate to apply the restriction on lender payments to brokers to a creditor's own employees, we do not believe that it is appropriate to do this. Lenders should not be subject to restrictions on what they are allowed to pay their own employees.

Appraisal Requirements – We support the provisions related to appraisals. However, we are concerned with the use of a "reason to know" standard. This type of standard is open to interpretation. We suggest that this standard should be deleted and the rule amended to simply state that a lender is prohibited from making a loan if the lender has actual knowledge that the appraisal was inflated.

Rules Relating to Mortgage Servicing Practices – We support the provisions related to servicing as these are the current standards used by the regulated banking industry. However, we do not believe that these rules should apply to home equity lines of credit and we are concerned about the requirement to provide a fee schedule that includes third-party fees. These fees vary widely based on location and should not be included in a lender's fee schedule. We are also concerned about the requirement to credit a payment as of the date of receipt. The banking industry generally utilizes the practice of effective dating – a practice where a payment is not immediately posted but is credited at a later date "as of" the date of receipt. We request that a provision be included in the final rule to clarify that the use of effective dating is a permissible practice.

Advertisements – We agree with the alternatives outlined in the proposed rule that permit the use of a toll-free number for providing additional information for TV and radio advertisements. Similar rules should be adopted for Internet advertisements that would allow the use of links to provide disclosure information for mortgage loans. We also agree with the proposed prohibited practices outlined in the rules for mortgage advertisements. These practices have been used by non-regulated lenders to mislead consumers and were certainly contributing factors that lead to the subprime mortgage crisis.

Effective Date for New rules – The proposed rules represent a major change in Regulation Z requirements. The currently proposed changes by HUD to RESPA disclosures also represent a major change. The FED is also considering additional changes to Regulation Z regarding other open-end and closed-end lending rules that will have a major impact on financial institutions. In addition to all of this, financial institutions are currently in the midst of completing risk assessments and developing a program to combat identity theft as required under the FACT Act. Numerous computer programs, vendor software, disclosure forms, and related training programs will have to be revised and tested.

We strongly urge the FED to coordinate the implementation dates for all of these initiatives and to work with HUD regarding implementation of the changes in RESPA in such a way as to lessen the implementation burden of the final rules. One of the ways in which this could be done is by staggering mandatory compliance dates by implementing the most urgent first – such as the prohibitions on advertising – with much longer mandatory compliance dates assigned to those rules that will require computer and disclosure changes. We suggest that 12 months would be the appropriate mandatory compliance time when computer programs, vendor software, and disclosure form changes are required.

Again, thank you for providing us with an opportunity to comment. If you have any questions concerning our comments, please contact me at 801-844-7955

Sincerely,

Norman Merritt
Corporate Compliance Director