NAVY FEDERAL Credit Union®

Office of the President

July 18, 2008

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

Re: Docket R-1286 Regulation Z

Dear Ms. Johnson:

Navy Federal Credit Union provides the following comments in response to the Federal Reserve Board's (the Board) proposed amendments to open-end credit rules under Regulation Z. Navy Federal is the nation's largest natural person credit union with over $34 billion in assets and 3 million members.

Navy Federal generally supports the Board's and other agencies' efforts to improve the effectiveness of consumer disclosures. However, after almost 40 years of various regulatory implementations, legal opinions, staff interpretations, and follow-up statutory and regulatory amendments, Regulation Z's – and the Truth in Lending Act's – effectiveness remains highly questionable. As an example, a significant number of consumers routinely patronize lenders who disclose and charge exorbitant fees and annual percentage rates in excess of 500 percent. Despite the Board's disclosure requirements and the widespread educational efforts of many organizations, including credit unions, consumers remain drawn to high-cost, high-turnover transactions for funds. New and innovative approaches to consumer credit needs must be explored.

Nonetheless, in regard to the current proposal Navy Federal strongly supports the Board's consumer testing of open-end credit disclosures. We urge the Board to rigorously test any new disclosure formats and language prior to issuing final changes to Regulation Z. If consumers' understanding of open-end credit will be improved by this proposal, it is imperative that testing demonstrates that consumers are highly likely to understand and benefit from any new disclosures.

Navy Federal does not oppose the proposed changes to the credit card application, solicitation, and account-opening disclosures. We believe such changes may improve consumer understanding of credit card terms and heighten consumer awareness of fees and any applicable penalty rates. Taking these changes into consideration with the proposed changes from June 2007, however, we caution the Board not to make these disclosures – particularly the tabular disclosures –

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so lengthy as to be unhelpful to consumers. We encourage the Board to closely scrutinize the impact longer disclosures may have on consumers during testing.

Further, we strongly encourage the Board to adopt all final rules related to open-end credit (non-real estate) disclosures at the same time. This will avoid financial institutions having to modify their disclosures numerous times due to regulatory changes. In addition, we anticipate the disclosure changes will be lengthy, and we urge the Board to allow a one year implementation period for financial institutions to bring their disclosures into compliance.

We appreciate the Board's efforts to prohibit creditors from setting payment cut-off times and due dates that make it difficult for consumers to submit payments on time and avoid late fees. Consumers should be allowed reasonable time to make payments without being subject to fees and other penalties. We believe the proposed changes that prohibit cut-off times prior to 5 p.m. for mailed payments, and that prohibit creditors from considering payments "late" on weekends or holidays, will effectively accomplish this goal. Navy Federal supports the proposed changes regarding payment cut-off times and due dates; however, we encourage the Board to simply require disclosure of the payment cut-off times in the initial disclosures. Consumers neither expect nor benefit from lengthy disclosure information in the periodic statements. Disclosure of the payment cut-off times on the periodic statements, in addition to the other disclosure requirements from the June 2007 proposal, would unnecessarily increase the cost of compliance. This is a cost that not-for-profit credit unions would be forced to pass on to their consumer/members in the form of higher rates and fees.

Navy Federal strongly opposes the proposed requirement for consumers to be able to opt-out of changes in terms affecting existing line of credit balances. This requirement will make it extremely difficult for creditors to manage risk. Creditors should be allowed to re-price credit on existing balances in accordance with consumers' ongoing and fluctuating credit risk. Such a prohibition will severely limit creditors' ability to offer low cost credit options to the most creditworthy consumers; instead, creditors will raise their credit prices to offset the increased risk associated with the inability to re-price existing balances. The result will be that consumers will pay more for credit. Some institutions may even be forced to deny credit applications from consumers with relatively poor credit that they would otherwise have approved. We strongly oppose this change. Also, as we stated in our response to the June 2007 proposal, we believe 30 days prior notice of changes in terms should be more than sufficient for consumers to understand any changes (in pricing or otherwise) and decide to transfer their existing balances to other institutions if they choose.

Navy Federal encourages the Board to clarify the proposed Commentary to Section 226.13(f) to allow financial institutions to deny claims, if the consumer has not provided required documentation to validate the claim after a reasonable period of time set by the creditor. Successful resolution of claims necessitates a certain degree of partnership between the institution and the consumer, and without documentation to validate the claims, consumers are not meeting the basic level of accountability and responsibility for the claims they make.

We appreciate and support the Board's intention to establish a de minimis level of $1.00 for the disclosure of finance charges in sections 225.5a(b)(3) and 226.6(b)(4)(iii)(D). However, the regulatory provision for adjusting the threshold amount is nonsensical. It states, "This $1.00 threshold amount shall be adjusted to the next whole dollar amount when the sum of annual percentage changes in the Consumer Price Index in effect on the June 1 of previous years equals or exceeds $1.00". Taken literally, this will never occur. We suggest the Board delete the basis for adjusting the threshold from the regulation and defer to the staff commentary which states, "The Board will publish adjustments, as appropriate".

Navy Federal appreciates the opportunity to comment on the proposed changes to the open-end credit sections of Regulation Z. If you have any questions on our comments, please contact Ellen Scott, Policy Analyst, at (703) 206-2577.

Sincerely,

Cutler Dawson

Cutler Dawson
President/CEO

CD/es