

Docket No. R-1314 (Regulation AA)
Meeting at the Federal Reserve Board on August 6, 2008

On August 6, 2008, Governor Randall Kroszner met with representatives from the Coalition for Equal Access to Credit (Coalition) to discuss the proposed rules under the Federal Trade Commission Act (Regulation AA). Attending the meeting on behalf of the Coalition were Denny Sanford, Miles Beacom, Dana Dykhouse (First Premier), Jack Hopkins and David Brown (CoreTrust), Greg Ticknor (Total Card), Cynthia Jager (Plains Commerce), Rick Fischer and Obrea Poindexter (Morrison & Forester), Michael Turner and Patrick Walker, Political and Economic Research Council (PERC), and Martin DePoy, Bockorny Group. Board staff also attending the meeting included Scott Alvarez, General Counsel, Sandra Braunstein, Director, Division of Consumer and Community Affairs, Leonard Chanin, Associate Director, Division of Consumer and Community Affairs, Stephanie Martin, Associate General Counsel, Legal Division, and Gregory Eliehausen and Kathleen Johnson, Division of Research and Statistics.

The Coalition expressed concerns about the proposed provision that would limit the amount of fees for account opening or credit availability that may be financed, both at account opening and during the first year overall. The Coalition believes that given the high risk of consumer default within the first four months as well as consumer unwillingness to prepay fees, the proposed fee restrictions would severely impact the ability of subprime card issuers to extend credit to consumers. The Coalition stated that if the rule was adopted as proposed, subprime card issuers would either have to take on unacceptable risk or provide less credit to their customers. As a result, the Coalition expressed the view that consumers who now rely on these low-limit cards would lose a number of benefits, including the ability to build or rehabilitate their existing credit profile and the use of these cards for day-to-day and emergency expenses.

Instead of the proposed prohibition, the Coalition recommended that the Board adopt the proposed enhanced disclosures for subprime credit cards as well as the right to reject the plan as set forth in the June 2007 and May 2008 Regulation Z proposals. In addition, the Coalition suggested that the Board should consider establishing a safe harbor for card issuers that substantially comply with a specified code of practices.

Additional details regarding the issues discussed are set forth in the attached documents.

Proposed Prohibition

- Posting to a consumer's account a security deposit or fees for the issuance or availability of credit is not an unfair practice causing substantial consumer injury that is not reasonably avoidable if clear and conspicuous disclosures are provided and conduct is consistent with specific code of practices.
- Proposed prohibition would eliminate a vital tool that provides consumers with verifiable opportunity to rehabilitate credit.

Low limit credit cards are vitally important to consumers, especially in challenging economic times

- Low limit cards provide important credit access for consumers who otherwise would have no credit.
- Millions of consumers do not have access to traditional credit and low limit cards provide an invaluable tool, in many cases the only tool available, to assist families in recovering from a financial emergency, such as unforeseen medical expenses, death of a spouse, loss of a job, divorce or bankruptcy.
- Low limit cards help consumers re-establish good credit. A significant number of cardholders successfully rehabilitate their credit and graduate to higher limit credit cards. A recent study shows that nearly 35% of consumers with low limit cards improved their credit scores and approximately 20%-25% of consumers "graduate" to higher limit cards over a two-year period. Such consumers are able to save thousands of dollars through better rates on other loans and even insurance.
- Low limit cards allow consumers to participate in many basic consumer transactions, including purchasing goods or services over the Internet, purchasing gas at unattended pumps, renting a car, and renting DVDs and other goods.

Imposing an upfront security deposit or collecting upfront fees is justified given higher risks and costs

- Low limit cards are structured to factor in increased risk. A prime issuer experiences a delinquency rate of approximately 4% to 5%, while a low limit card issuer experiences a delinquency rate of approximately 20%. While tens of thousands of cardholders "graduate" to higher limit cards by repaying their balances, an equal number of consumers do not. Thus, it is critical for card issuers to have the ability to price their products in order to absorb the losses caused by those who default.
- Low limit cards also are more expensive to issue and maintain. For example, reserve requirements can be up to 56% for low limit card issuers, but as little as 8% for prime issuers. Also, a prime customer typically contacts the issuer one time per year, while a low limit cardholder contacts the issuer on average one or more times a month.

Eliminating low limit credit card cards could have an impact on both consumers and the economy

- Eliminating low limit cards at a time when consumers most need credit would hurt millions of consumers.

- With the increase in gas and food prices, consumers are finding it increasingly difficult to make ends meet and at times must use credit to do so.
- An independent financial analyst suggests that the UDAP Proposal will result in a significant reduction in credit availability over the next two years.
- There also are concerns about the macroeconomic effects of the proposal. A loss of confidence in the ability of card issuers to effectively price risk could cause problems in the credit card securitization market similar to those in the mortgage securitization market.
- A reduction in the availability of credit because of the UDAP Proposal before the financial markets have fully recovered could further harm economic growth and impede economic recovery.

In lieu of prohibiting the financing of upfront fees or security deposits, the FRB should consider establishing a safe harbor for card issuers that substantially comply with a specified code of practices

- Some low limit card issuers currently provide consumers:
 - Clear disclosures, including disclosure of the available credit after fees are imposed;
 - An additional set of disclosures with delivery of the card, reminding them of the fee total and remaining credit available;
 - A fee refund opportunity if the consumer decides not to accept or use the card; and
 - Educational initiatives like statement messages, Web sites, brochures educating consumers about the use and benefits of low limit cards, including the importance of making payments on time.
- Similar practices could be combined by the FRB in a code of practices, like that attached, to form a safe harbor for card issuers.

SAFE HARBOR 1

Code of Fair Practices

- Clear disclosure in solicitations, applications and advertisements of the total of fees, total credit limit, and remaining available credit after fees are applied;
- Clear disclosure of consumer's right to pay fees upfront or post fees to the account;
- Separate additional disclosure of total of fees and remaining available credit with fulfillment kit accompanying the card;
- Clear disclosure of consumer's right to full and immediate refund if consumer changes mind after receiving card and the separate fee/credit limit disclosure;
- Reporting of the account payment experience to all 3 major credit reporting agencies; and
- No reporting to credit reporting agencies if consumer changes mind and opts for a refund (or alternatively, report account as closed at consumer's request).

SAFE HARBOR 2

- Clear disclosure of the total fees, total credit limit, and remaining available credit after fees are applied;
- Clear disclosure of consumer's right to pay fees upfront or post fees to the account; and
- No finance charges on fees posted to the account, provided initial payments could be applied to repay the fees.



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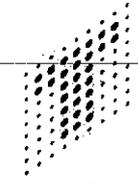
**TransUnion summary of results for
CEAC Coalition**

SUPPORTING ANALYSIS

July, 2008

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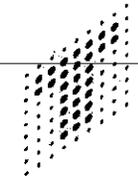
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- Overview of scores, attributes, and data provided in the analysis
- Summary of results
- Consumers with positive score migration
- Attribute migration
- Attributes indicative of increased access to traditional forms of credit

TransUnion provided scores, credit attributes, and archive data for analysis

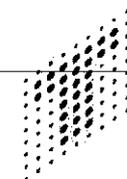


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- 380,246 input consumer records from four national sub prime bankcard lenders for consumers that opened a sub prime credit card in 1/06
- All records matched to 12/05 observation and 1/08 performance archive databases
- VantageScore & 300+ off the shelf attributes, and several custom attributes appended to each record
- Matching to archive databases resulted in 365,000 records for analysis

Data analyzed: 365,000 consumers, observation December 2005 and performance January 2008. 127,000 consumers had a VantageScore increase.

High level summary of results



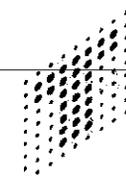
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All input consumers

- 10% of all consumers opened a new bankcard in the last 12 months with a high credit/credit limit of \$1,000-\$2,499
- 9% of all consumers opened a new bankcard in the last 12 months with a high credit/credit limit of \$2,500+
- 16% of all consumers opened a new bankcard in the last 12 months with a high credit/credit limit of \$1,000+
- 50% of all consumers received a promotional offer of credit from a non-subprime lender in the last 12 months
- 11,258 consumers unscorable in December 2005 received a valid VantageScore as of January 2008

Input consumers with a VantageScore in December 2005

- 37% of input consumers experienced an increase in their VantageScore
- 17% of input consumers experienced an increase in their VantageScore of 40 points or greater
- **Of those with score increases:**
 - 19.9% of consumers with a sub-prime VantageScore in December 2005, increased their score to either near-prime, prime, or super-prime in January 2008
 - 14% of consumers opened a new bankcard in the last 12 months with a high credit/credit limit of \$1,000-\$2,499
 - 14% of consumers opened a new bankcard in the last 12 months with a high credit/credit limit of \$2,500+
 - 24% of consumers opened a new bankcard in the last 12 months with a high credit/credit limit of \$1,000+
 - 58% of consumers received a promotional offer of credit from a non-subprime lender in the last 12 months



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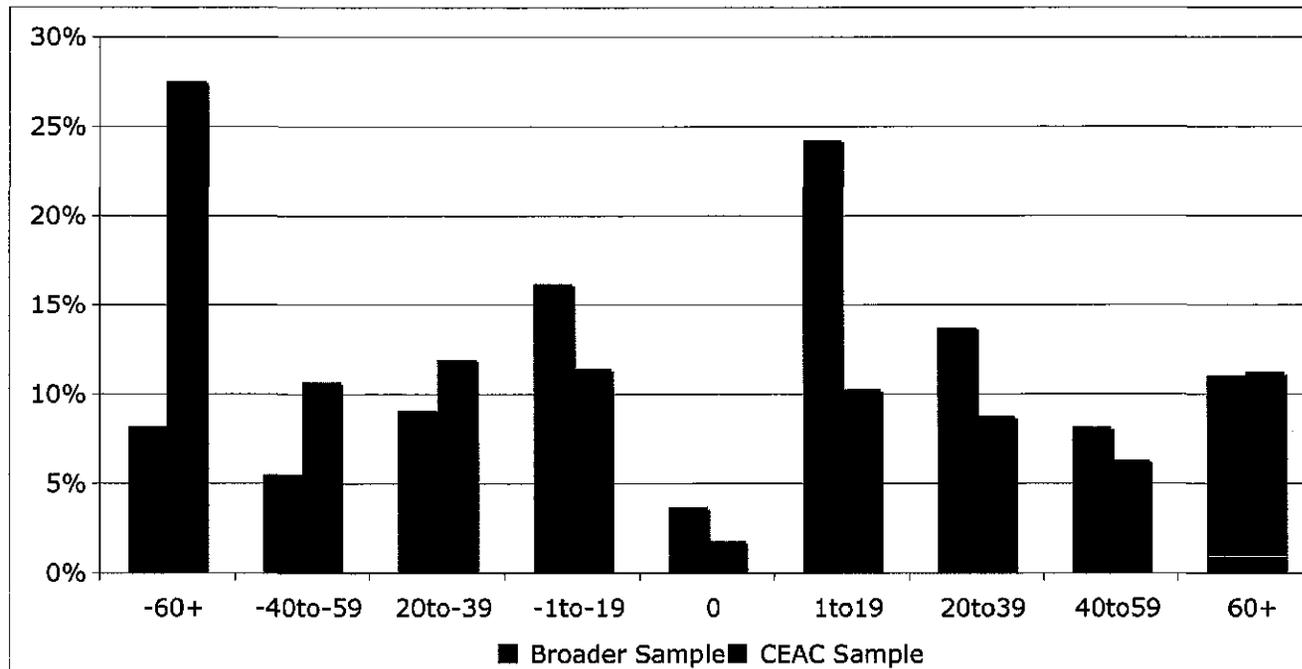
Positive score migration leads to increased access to credit

Migration of scores over time



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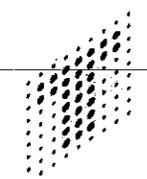
VantageScore predicts the likelihood of a consumer becoming 90+ days delinquent over the next 24 months.



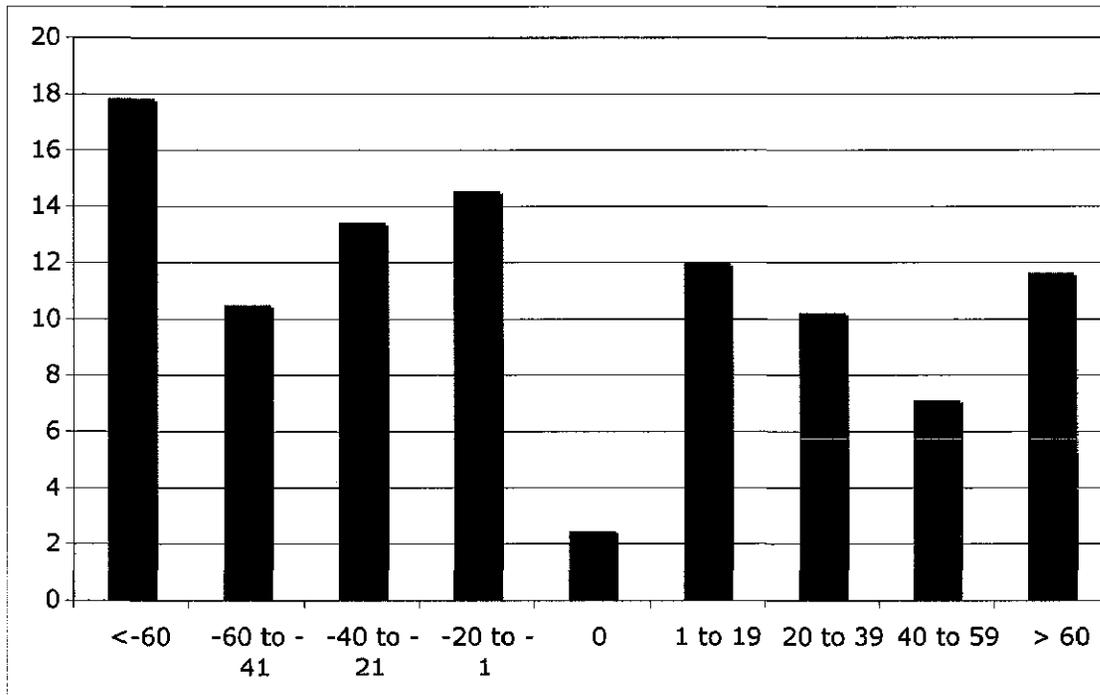
Vantage Score migration from December 2005 to January 2008 for Broader Sample
 Vantage Score migration from March 2005 to March 2006 from a CEAC Sample

- 36.6% of input consumers had score increase. 17.2% had increase of 40 or more points.
- Average input consumers exhibit less score stability, lower scores, and more downward score movement than average consumers from broader industry sample.
- 52% of input consumers had one or more 90+ day delinquencies in January 2008

Migration of scores over time for those with no credit usage in December 2005



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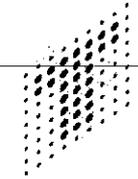
- 41% of consumers had an increase in their VantageScore.

- 19% had an increase of 40 or more points.

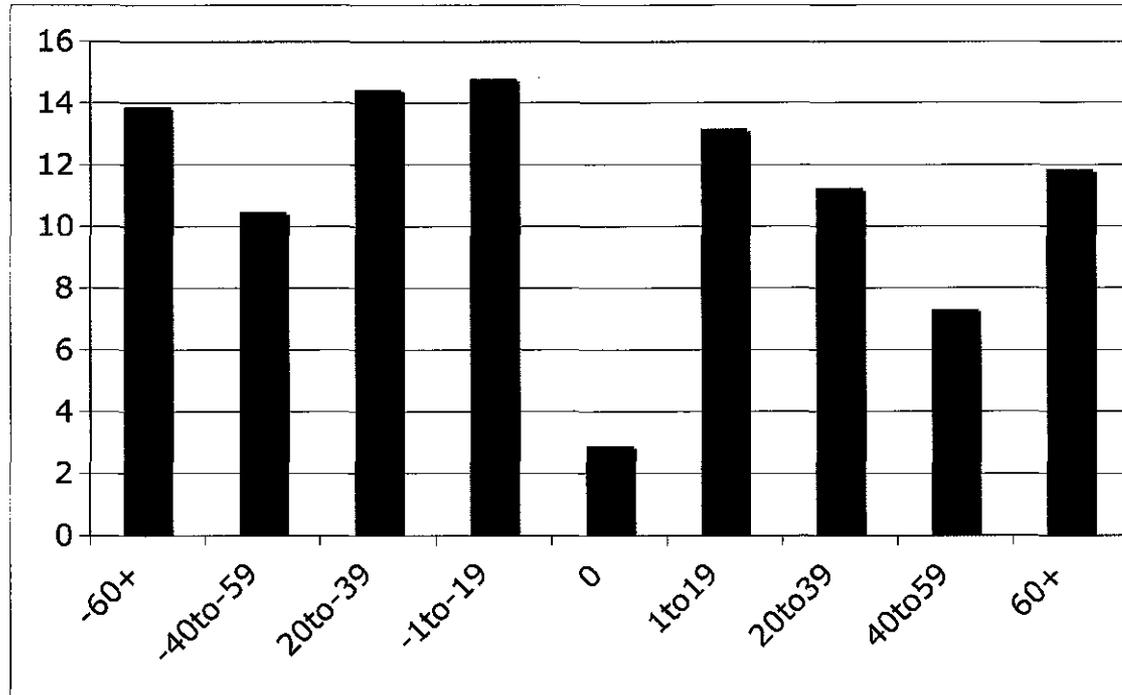
Vantage Score migration from December 2005 to January 2008

59,308 of the input consumers had no credit balance in December 2005 and were scoreable in both periods. 59% of these consumers had a positive credit balance by January 2008.

Migration of scores over time for those with no open trades in December 2005



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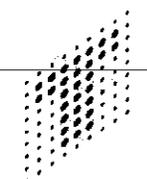
- 44% of consumers had an increase in their VantageScore.

- 19% had an increase of 40 or more points.

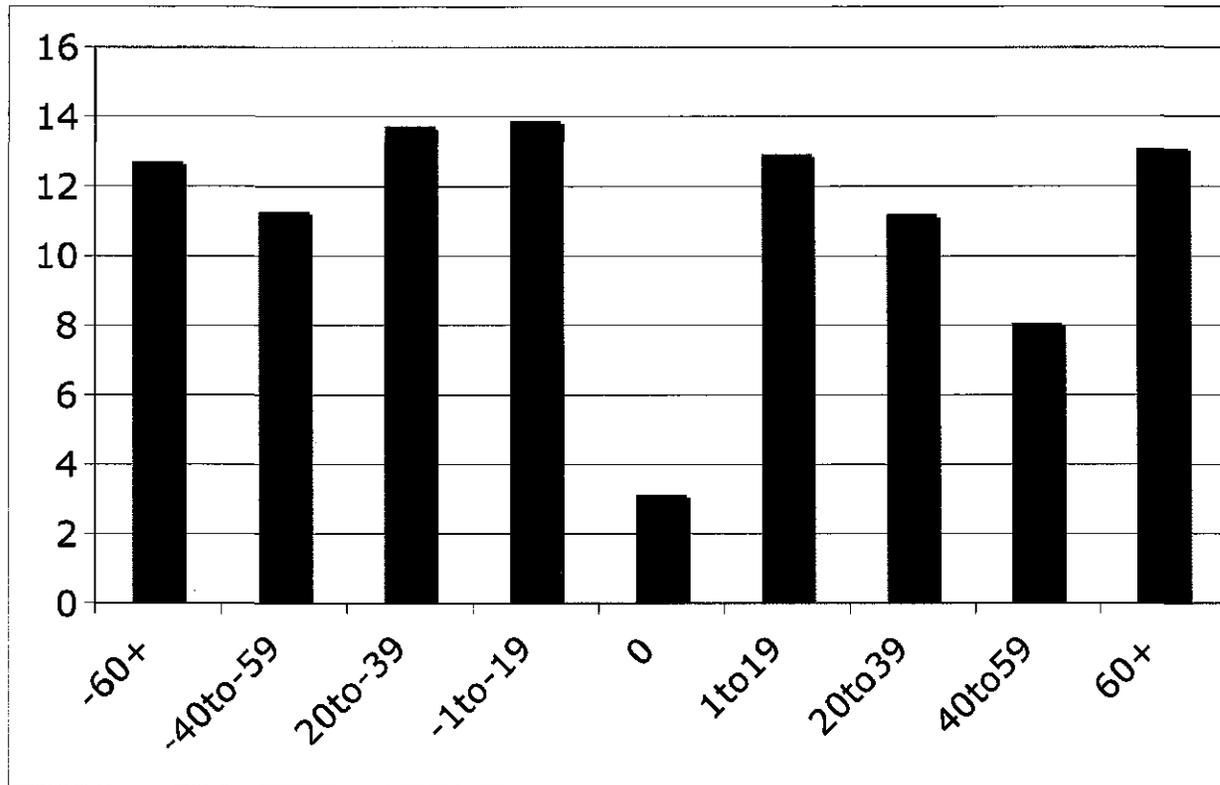
Vantage Score migration from December 2005 to January 2008

36,103 of the input consumers had no open trades in December 2005.

Migration of scores over time for those with scores below 600 (the median for input consumers) in December 2005



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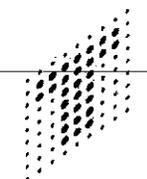
Vantage Score migration from December 2005 to January 2008

•45% of consumers had an increase in their VantageScore.

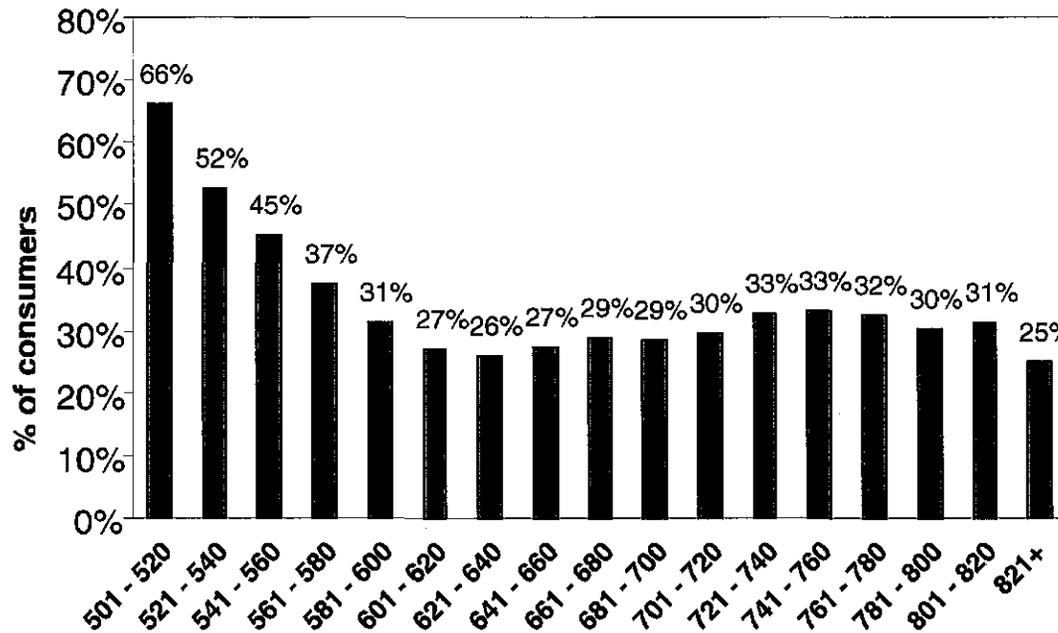
•21% had an increase of 40 or more points.

168, 957 consumers had a VantageScore below 600 in December 2005.

Positive score migration is occurring across the entire spectrum



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**VantageScore increase
from December 2005 to January 2008**

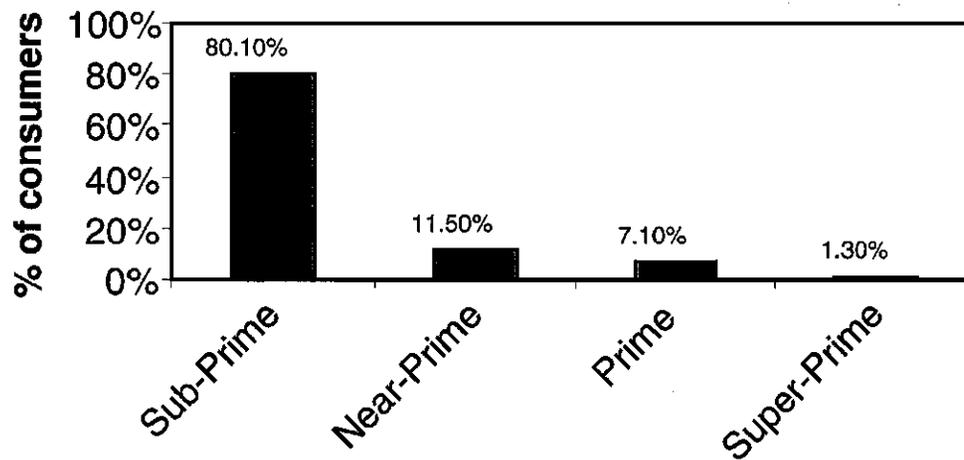
• **66% of consumers in score band 501-520 had positive score migration.**

• **Each score band saw positive migration of at least 25%**

Significant migration in the lower score bands but notable migration is also occurring in the higher score bands

127,000 input consumers had a VantageScore increase from December 2005 to January 2008

For those with score increases, positive migration of scores from sub-prime risk to near-prime, prime, and super-prime leads to increased access to credit



Vantage Score migration from December 2005 to January 2008

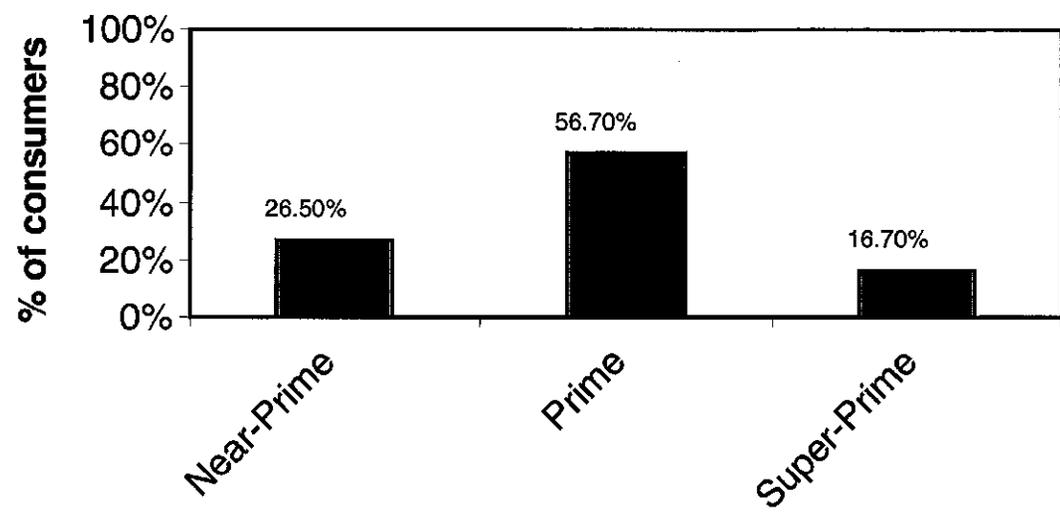
• 19.9% of consumers with a score rise and a sub-prime score as of December 2005 increased their score to a non sub-prime risk score as of January 2008.

22,171 input consumers had a sub-prime VantageScore in December 2005 and either a near-prime, prime, or super-prime VantageScore in January 2008



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For those with score increases, positive migration of scores from near-prime risk to prime and super-prime leads to increased access to credit

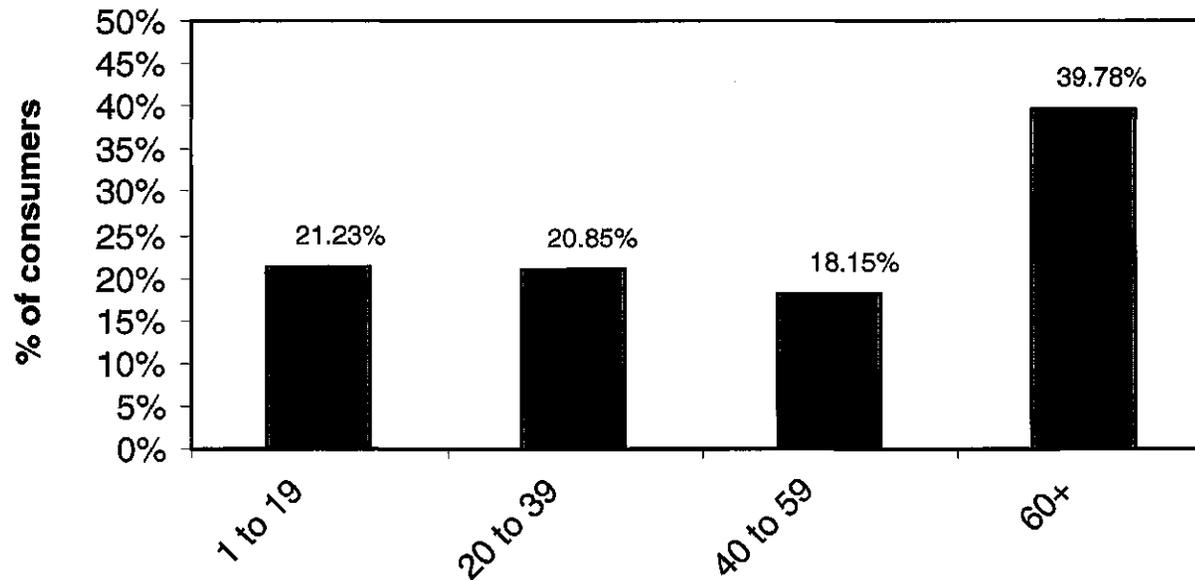
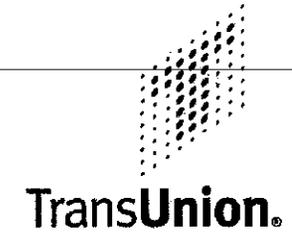


73.4% of consumers with a score rise and a near-prime score as of December 2005 increased their score to prime or super-prime as of January 2008

Vantage Score migration from December 2005 to January 2008

6,344 input consumers had a near-prime VantageScore in December 2005 and either a prime or super-prime VantageScore in January 2008

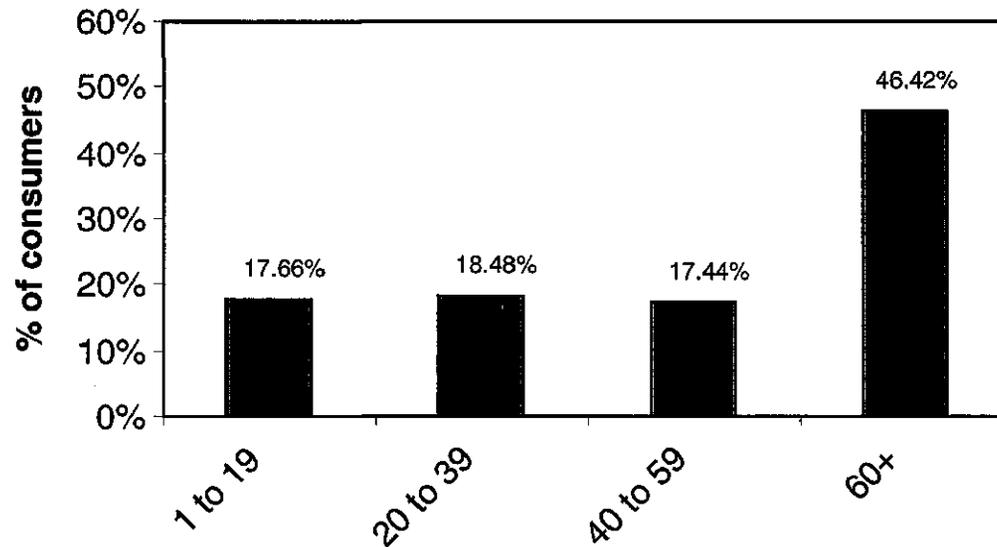
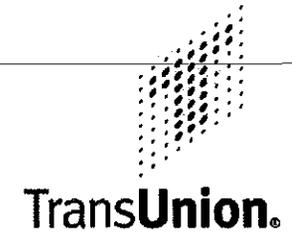
Positive migration of scores over time leads to increased access to credit



Vantage Score migration from December 2005 to January 2008
-For those (1) with score increases, (2) who received non-sub-prime inquiries, and (3) opened a new bankcard with a credit limit of \$1,000-\$2,499

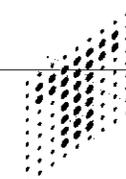
16,447 or 4.5% of all input consumers had a VantageScore increase and received promotional inquiries for credit, and opened at least one new bankcard with a credit limit of \$1,000-\$2,499.

Positive migration of scores over time leads to increased access to credit



Vantage Score migration from December 2005 to January 2008
- For those (1) with score increases, (2) who received non-sub-prime inquiries, and (3) opened a new bankcard with a credit limit of \$2,500+

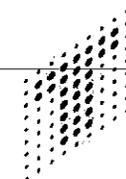
16,982 or 4.6% of all input consumers had a VantageScore increase and received promotional inquiries for credit, and opened at least one new bankcard with a credit limit of \$2,500+



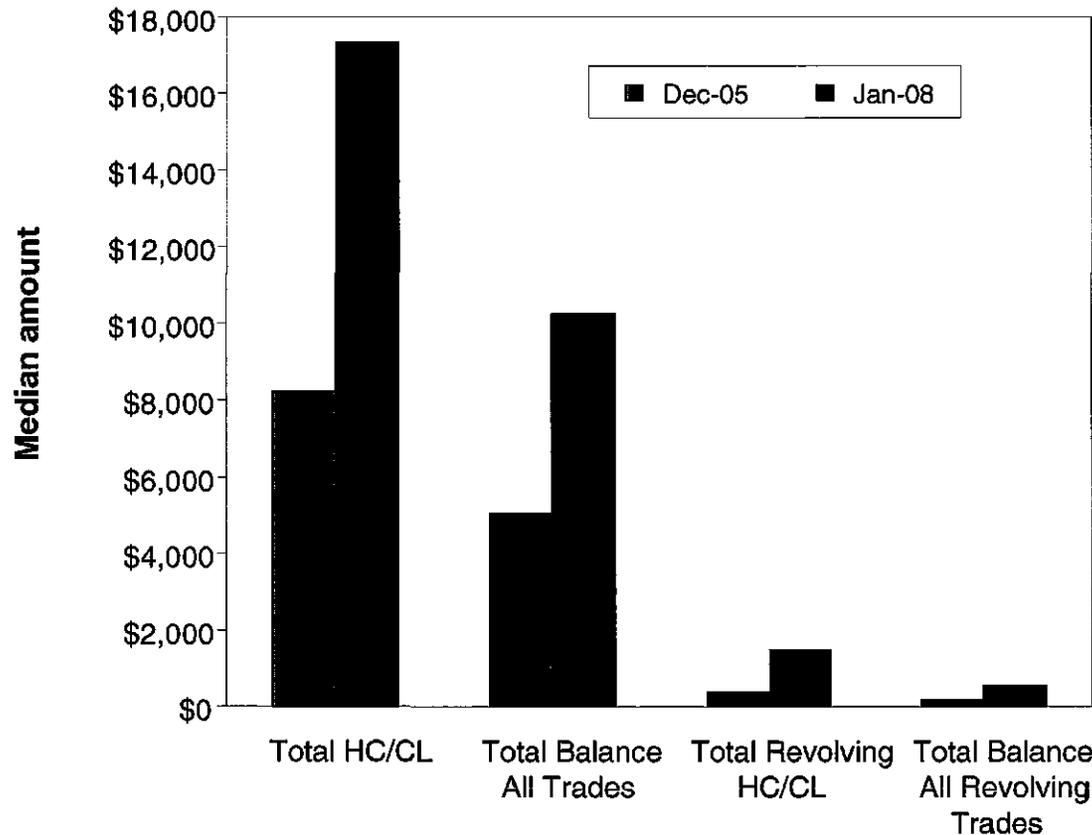
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**Increases in attribute values can be
indicative of improvement in credit
behavior**

For those with score increases, important credit attribute values are increasing



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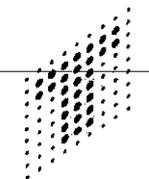


- Similar results observed for other credit products
- Results based on consumers with a VantageScore increase from December 2005 to January 2008

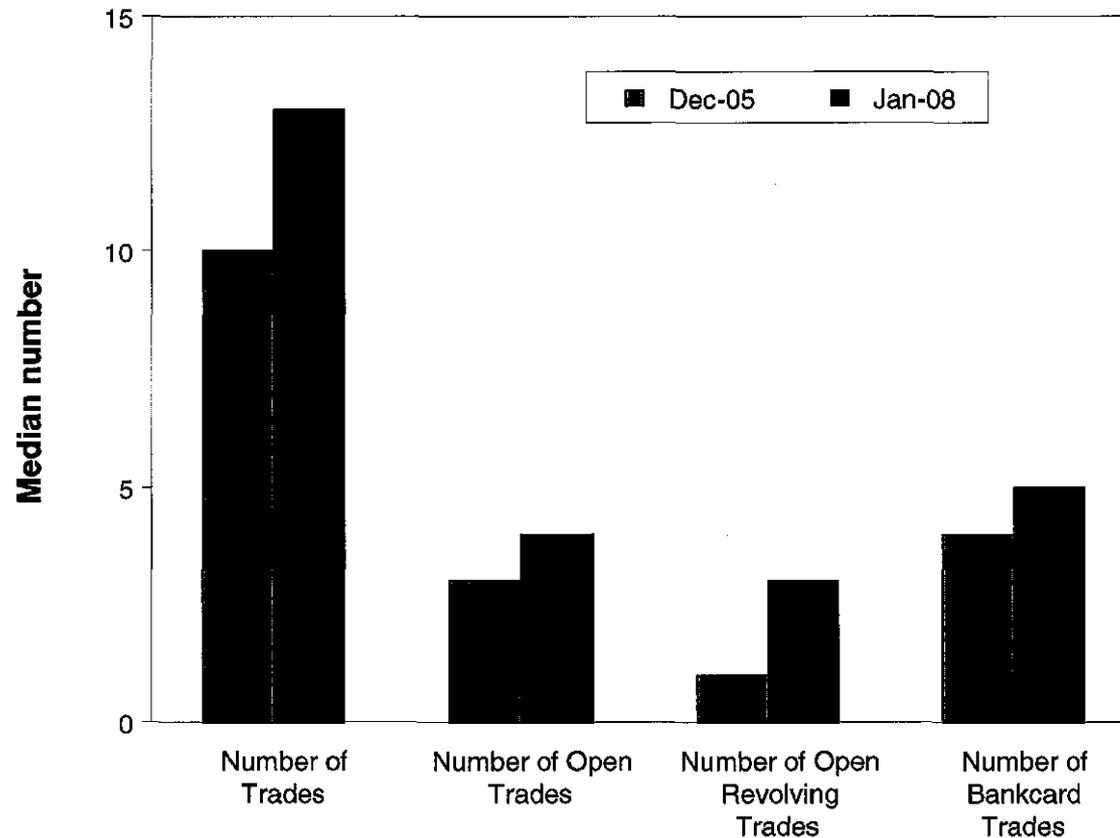
Significant increase in median values of high credit/credit limit and balance attributes over a two year period

127,000 input consumers had a VantageScore increase from December 2005 to January 2008

For those with score increases, important credit attribute values are increasing



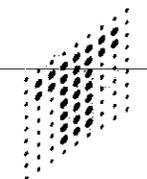
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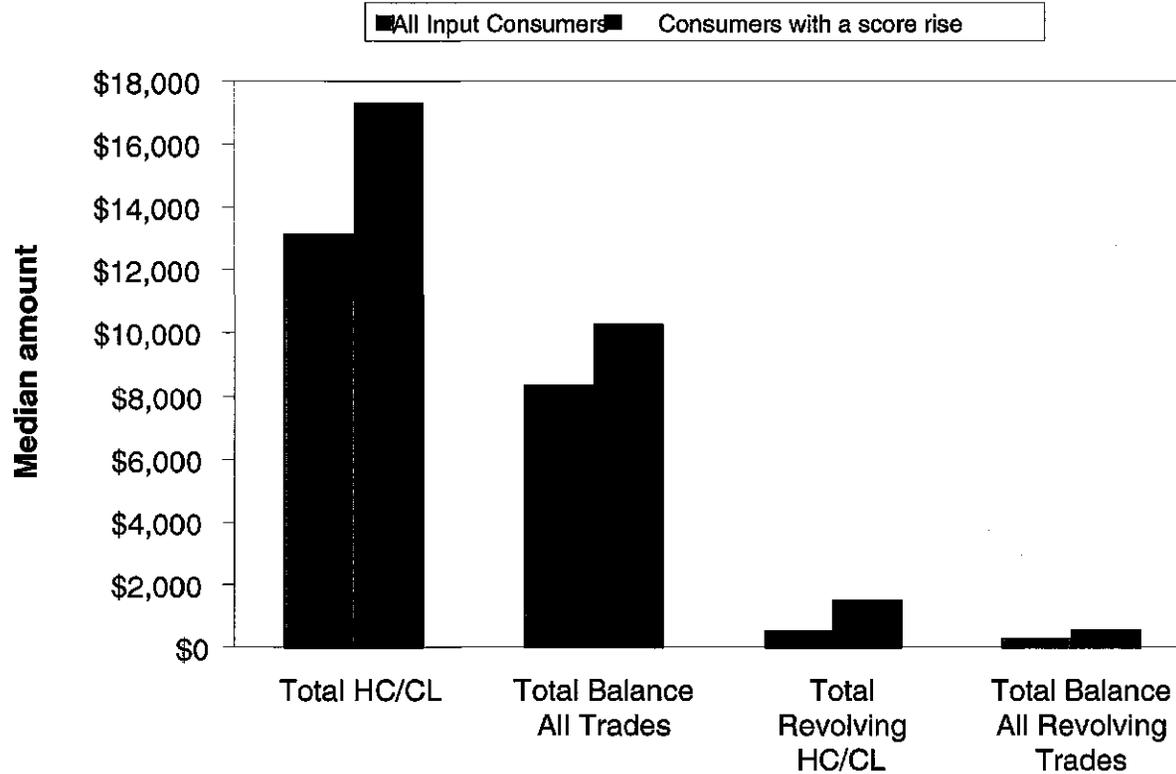
- Similar results observed for other credit products
- Results based on consumers with a VantageScore increase from December 2005 to January 2008

Significant increase in median values of number of trade lines attributes over a two year period

Increasing credit scores can lead to more access to credit and higher credit activity



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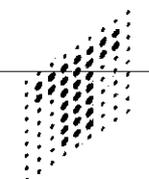
- Similar results observed for other credit products
- Comparison of results for consumers with a VantageScore increase to all input consumers from January 2008 data

Key attribute segments

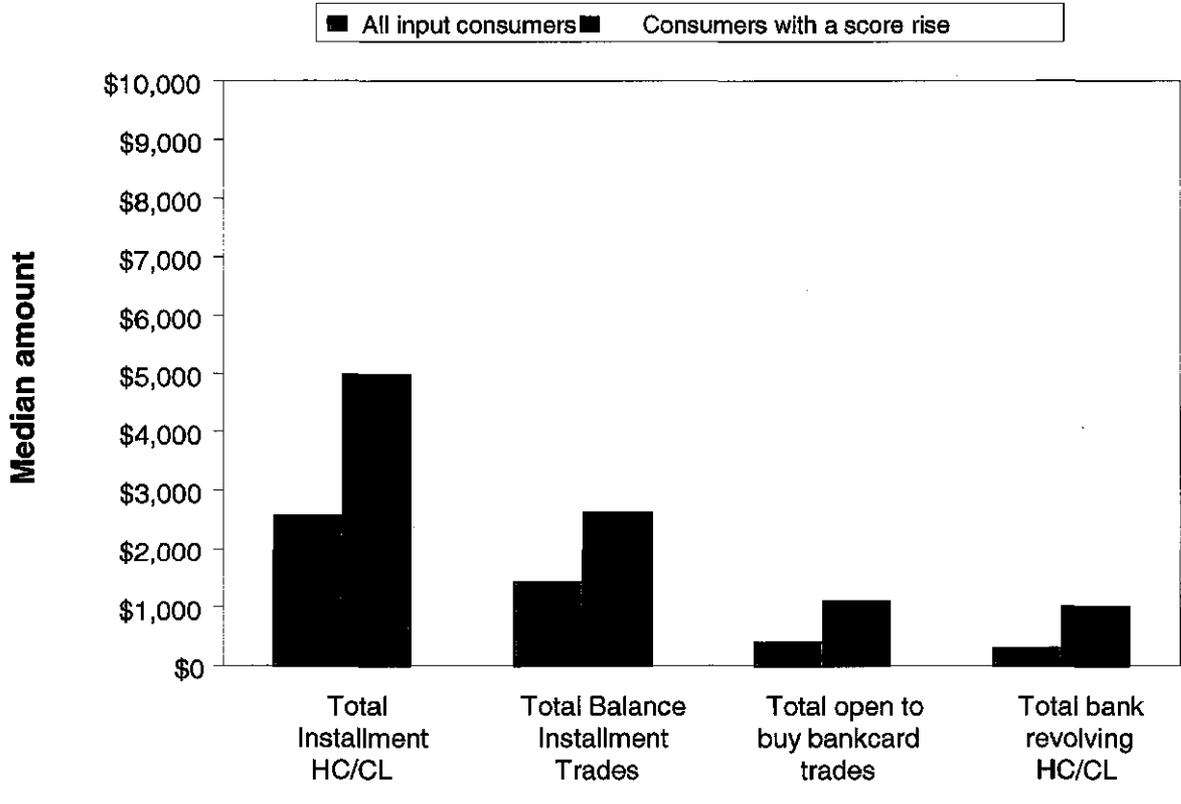
Consumers who improved their VantageScore had higher high credit/credit limits and higher balances than the overall population

Data analyzed: 365,000 input consumers, observation December 2005 and performance January 2008. 127,000 consumers had a VantageScore increase.

Increasing credit scores can lead to more access to credit and higher credit activity



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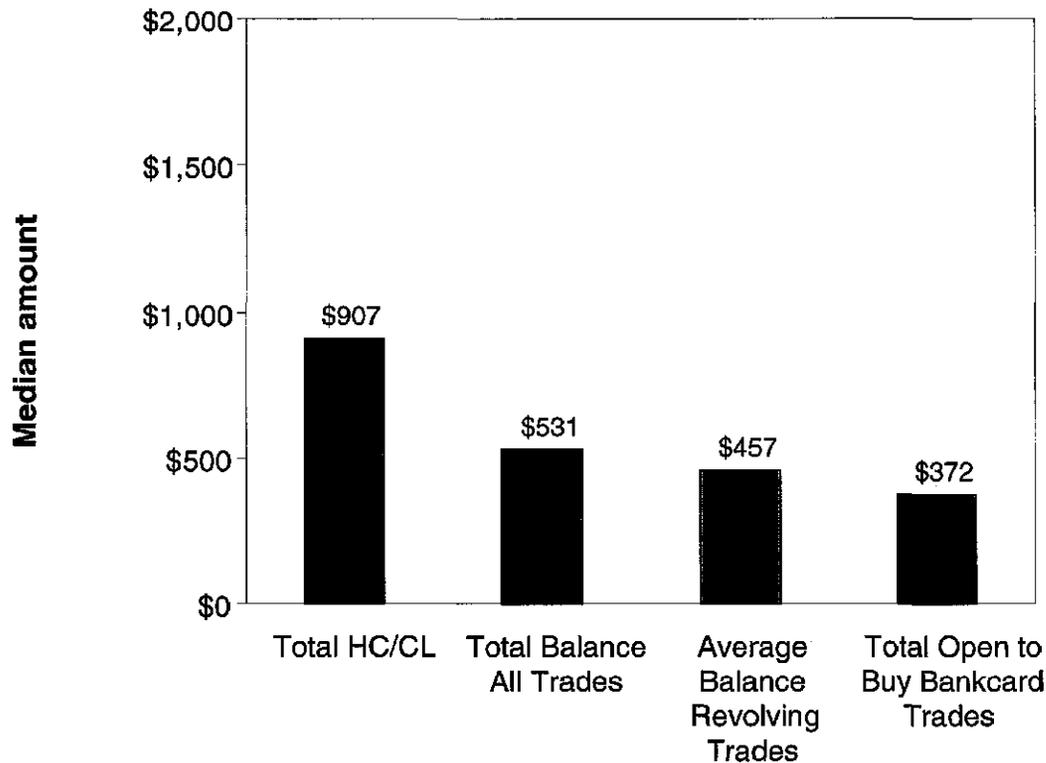
- Similar results observed for other credit products
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Key attribute segments

Consumers who improved their VantageScore had higher high credit/credit limits and higher balances than the overall population

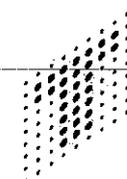
Data analyzed: 365,000 input consumers, observation December 2005 and performance January 2008. 127,000 consumers had a VantageScore increase.

Consumers booked without a valid score in December 2005 due to insufficient credit, are scoreable two years later



- Results for consumers unscorable in December 2005 based on their credit profile in January 2008. VantageScore scored 88% of this previously unscored population as of January 2008.

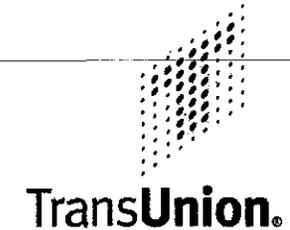
Access to credit and balance build occurring for this population. Median VantageScore in January 2008 is 547, which is considered sub-prime risk



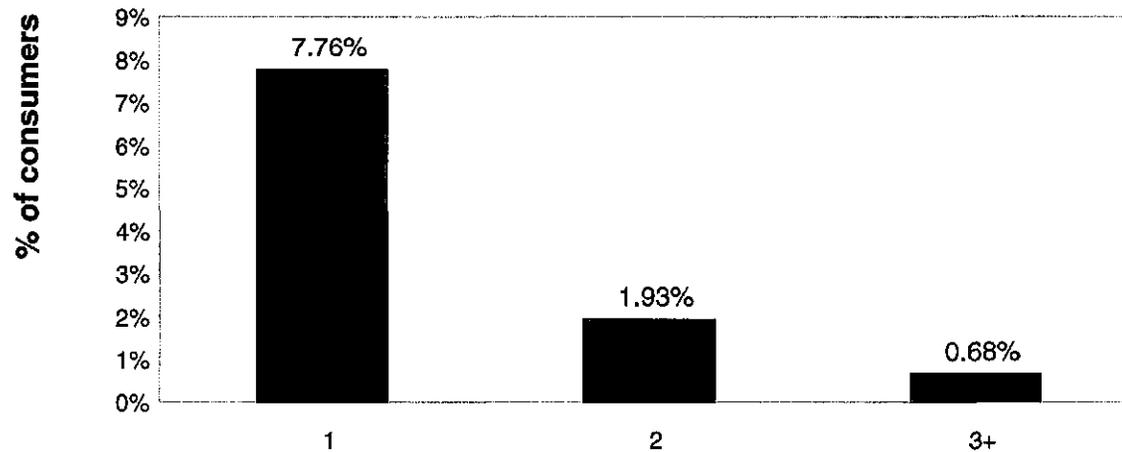
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New account openings and promotional offers of credit are indicative of access to traditional forms of credit

Attributes provided indicate consumers access to traditional forms of credit has increased



All input consumers

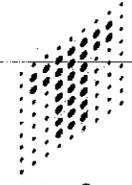


Number of non-subprime bankcards opened w/in last 12 months with a credit limit of \$1,000-\$2,499

- Number of new bankcard trades is indicative of consumers access to traditional forms of credit at possibly more favorable terms
- 7.8% of consumers opened 1 new bankcard and 2.6% opened 2 or more new bankcards with a credit limit of \$1,000-\$2,499

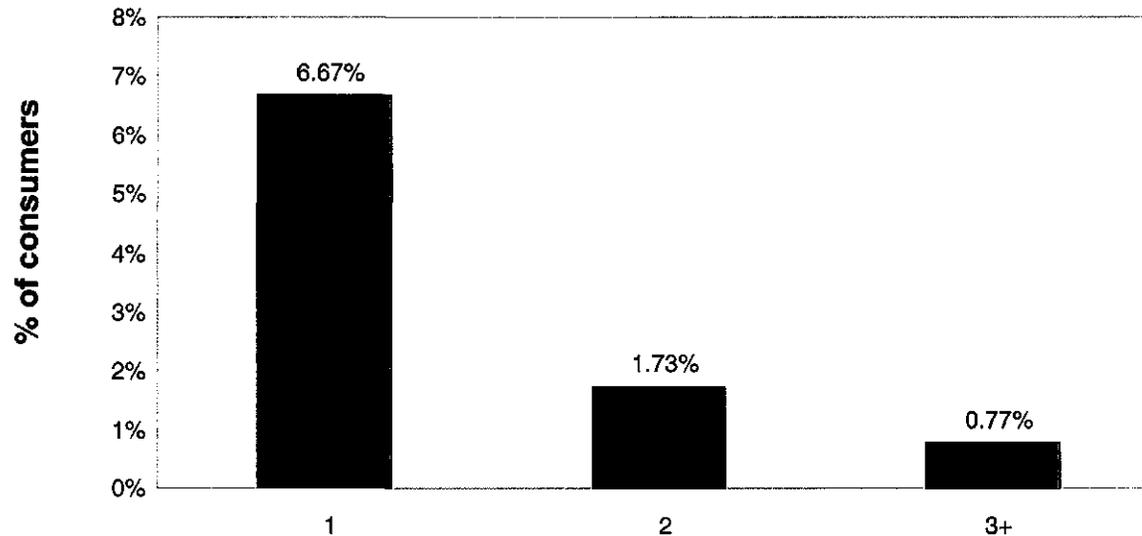
10.4% of consumers opened at least 1 new non-subprime bankcard in the last 12 months (prior to January 2008) with a credit limit of \$1,000-\$2,499

Attributes provided indicate consumers access to traditional forms of credit has increased



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All input consumers

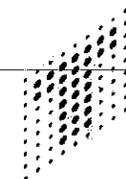


- Number of new bankcard trades is indicative of consumers access to traditional forms of credit at possibly more favorable terms
- 6.7% of consumers opened 1 new bankcard and 2.5% opened 2 or more new bankcards with a credit limit of \$2,500+

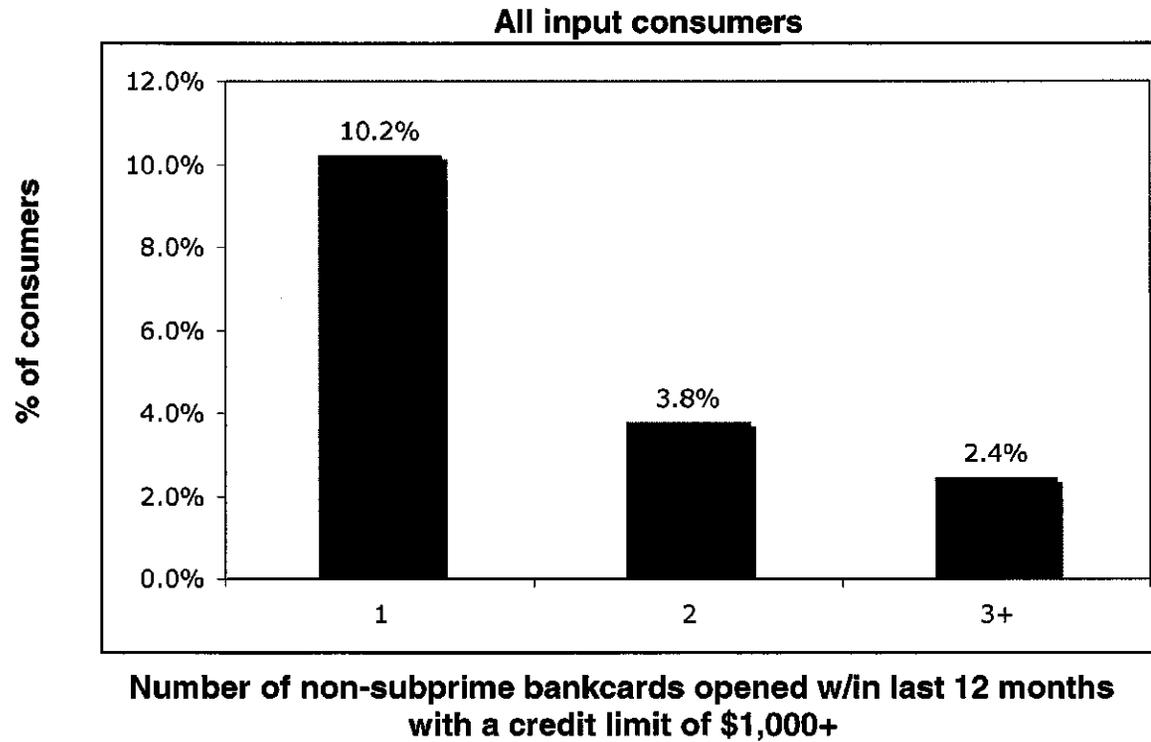
Number of non-subprime bankcards opened w/in last 12 months with a credit limit of \$2,500+

9.2% of consumers opened at least 1 new non-subprime bankcard in the last 12 months (prior to January 2008) with a credit limit of \$2,500+

Attributes provided indicate consumers access to traditional forms of credit has increased



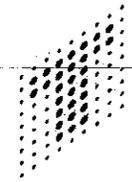
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16.4% of consumers opened at least 1 new non-subprime bankcard in the last 12 months (prior to January 2008) with a credit limit of \$1,000+

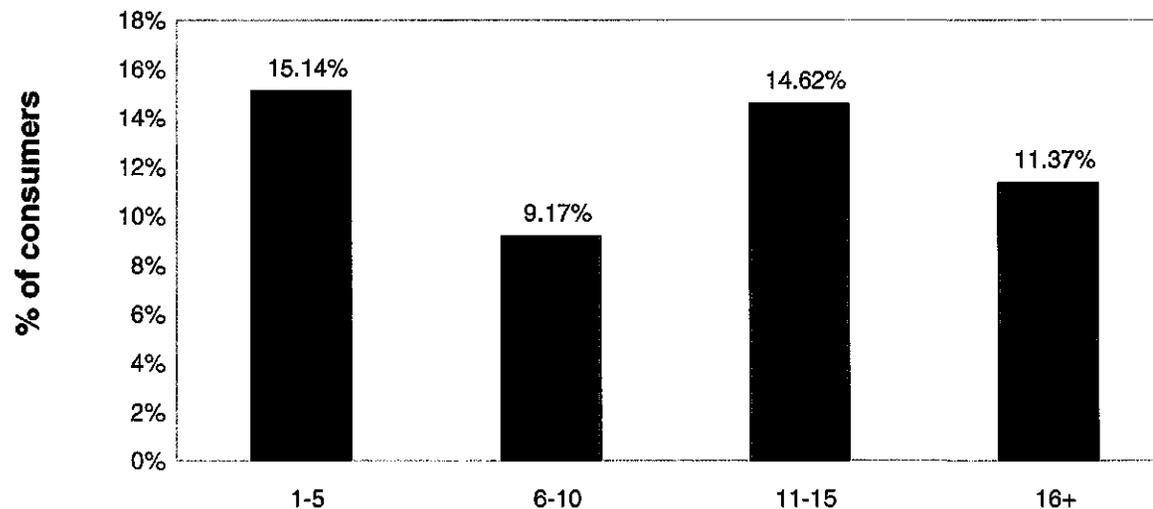
Data analyzed: 365,000 input consumers, observation December 2005 and performance January 2008

Attributes provided indicate consumers access to traditional forms of credit has increased



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All input consumers

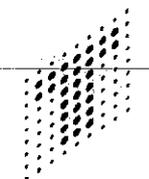


- Number of non-subprime promotional inquiries is indicative of consumers access to traditional forms of credit at possibly more favorable terms
- 24% of consumers received 1-10 promotional inquiries and 26% received 11 or more promotional inquiries for credit from non-subprime credit issuers in the last 12 months

Number of non-subprime promotional inquiries w/in last 12 months

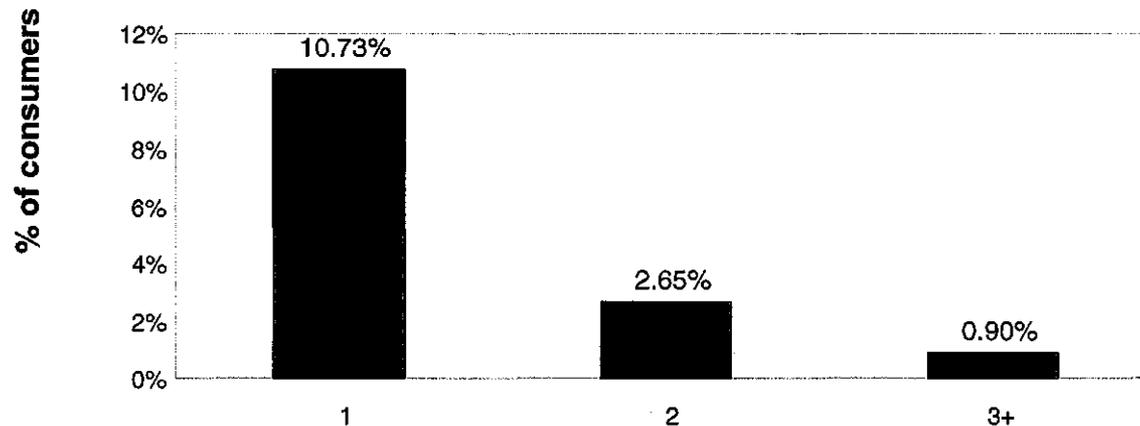
50.3% of consumers received at least 1 non-subprime promotional offer of credit in the last 12 months (prior to January 2008)

Attributes provided indicate consumers access to traditional forms of credit has increased



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Input consumers with a VantageScore increase



- Number of new bankcard trades is indicative of consumers access to traditional forms of credit at possibly more favorable terms
- 10.7% of consumers opened 1 new bankcard and 3.6% opened 2 or more new bankcards with a credit limit of \$1,000-\$2,499

Number of non-subprime bankcards opened w/in last 12 months with a credit limit of \$1,000-\$2,499

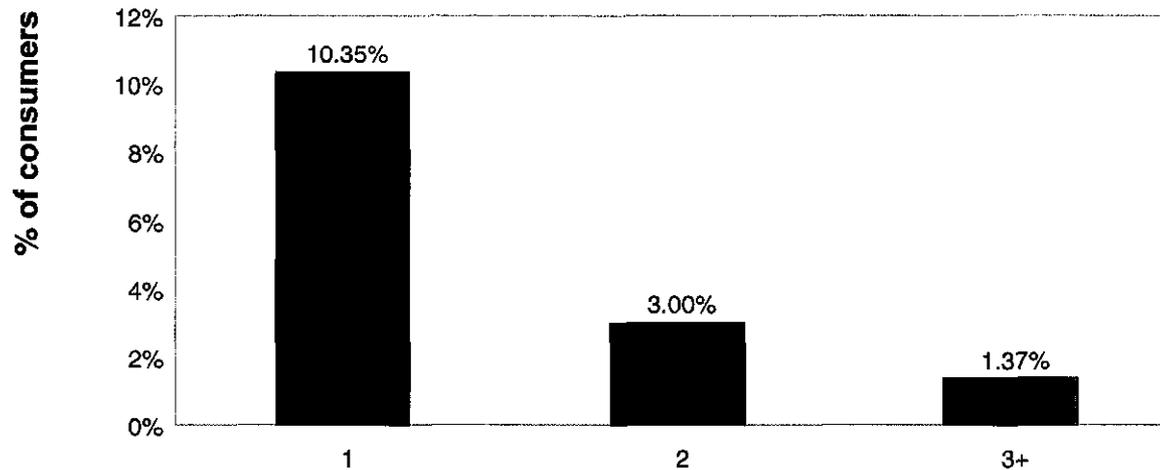
14.3% of consumers with a VantageScore increase opened at least 1 new non-subprime bankcard in the last 12 months (prior to January 2008) with a credit limit of \$1,000-\$2,499

Attributes provided indicate consumers access to traditional forms of credit has increased



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Input consumers with a VantageScore increase

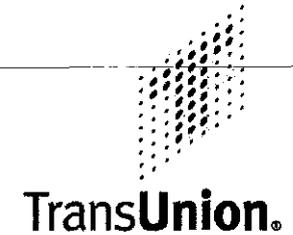


Number of bankcards opened w/in last 12 months
with a credit limit of \$2,500+

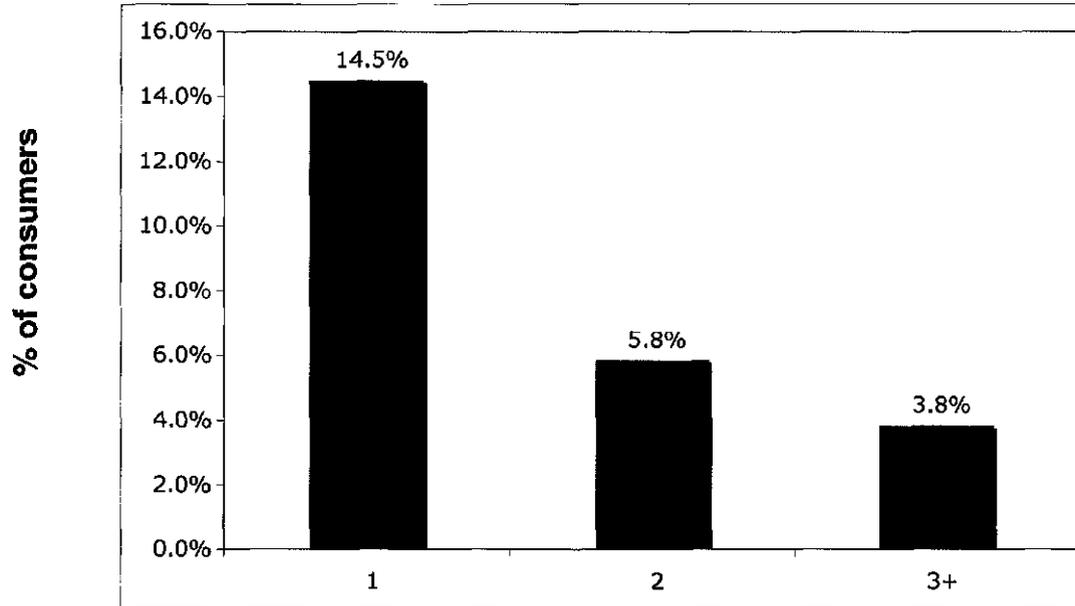
- Number of new bankcard trades is indicative of consumers access to traditional forms of credit at possibly more favorable terms
- 10.3% of consumers opened 1 new bankcard and 4.4% opened 2 or more new bankcards with a credit limit of \$2,500+

14.7% of consumers with a VantageScore increase opened at least 1 new non-subprime bankcard in the last 12 months (prior to January 2008) with a credit limit of \$2,500+

Attributes provided indicate consumers access to traditional forms of credit has increased



Input consumers with a VantageScore increase

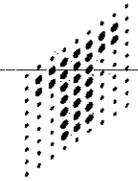


Number of non-subprime bankcards opened w/in last 12 months with a credit limit of \$1,000+

24.2% of consumers with a VantageScore increase opened at least 1 new non-subprime bankcard in the last 12 months (prior to January 2008) with a credit limit of \$1,000+

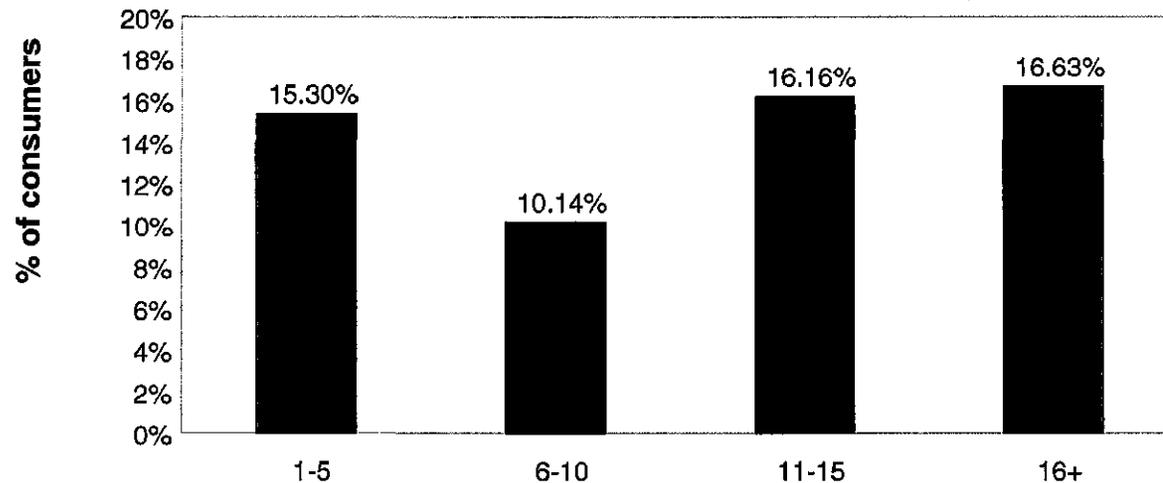
127,000 input consumers had a VantageScore increases from December 2005 to January 2008

Attributes provided indicate consumers access to traditional forms of credit has increased



TransUnion.

Input consumers with a VantageScore increase



Number of non-subprime promotional inquiries w/in last 12 months

- Number of non-subprime promotional inquiries is indicative of consumers access to traditional forms of credit at possibly more favorable terms
- 25% of consumers received 1-10 promotional inquiries and 33% received 11 or more promotional inquiries for credit from non-subprime credit issuers in the last 12 months

58.2% of consumers with a VantageScore increase received at least 1 non-subprime promotional offer of credit in the last 12 months (prior to January 2008)