

July 29, 2008

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

RE: **Docket No. R-1314**, Proposal to amend Regulation AA, Unfair and Deceptive Acts or Practices

Dear Ms Johnson and the Federal Reserve Board of Governors:

Thank you for providing me with the opportunity to provide its comments to the proposed rules on Regulation AA.

My association to the credit card industry is two fold, 1) as a consumer, I carry several credit cards and appreciate/respect the convenience and existence of them 2) I've been privileged by working the past 23 years as a credit card lender beginning with a "Top 5" prime issuer to my present position employed with a top credit card lender in the "under banked" market. I've personally approved credit lines from \$200 up to \$100,000 primarily based on level of risk which equates to consumer credit worthiness. I'm very familiar with the necessity of credit cards for our consumer and the large impact it has to our economy.

I've also worked closely with the 3 main credit bureaus providing them suggestions to enable the reports to become more consumer/reader friendly as well as suggesting tagging *Medical* information as a business type – *Trans Union* is currently doing this and my hope is the other 2 bureaus will follow suit. This is just one small but needed example that will benefit both the consumer and lender from a credit bureau reporting standpoint. Lastly, I've been closely involved with credit not only from a lending perspective, but from a teaching and consultative perspective as well.

In connection with the proposed amend to Regulation AA, I first wanted to bring to your attention the following stout concerns I have with your proposal and wish to bring the boards attention the following points for consideration:

1. **12CFR.27 – Charging Security deposit & fee for issuance that total a majority of the credit limit appears to be unfair**
  - a. *Response – under banked credit cards are risk based priced and are a substantially higher risk than prime cards. Furthermore, credit card lenders are strongly regulated with full disclosure as opposed to "Payday Loan" companies which is an opportunity for you to look into if you really want to capture deceptive consumer practice. This proposed pricing measure would dramatically impact lender existence. The expenses*

associated with an up front fee are needed due to higher operational expenses (i.e. contact rate increase etc.) and reserve requirement (i.e. up to 56% reserve vs. prime lender at 8%).

- b. **Solution** – leave as is today...that is IF you want to enable the under banked lenders ability to survive aside from its already heavy regulated disclosures and control.

2. **12CFR.27 – Consumers incur substantial injury when security deposit or fees for issuance are charged to the account, both in the form of the charges and interest on the charges**

- a. **Response** – most consumers in the under banked world do NOT have the funds to pay fees upfront or full security deposit. Rather, the way most lenders are set up today ultimately provides a financial convenience by NOT requiring upfront fee or full security deposit. In reality, it is in the consumer's hands on whether they want to pay balance in full, pay partial or pay minimum...truly it depends on each individual consumer as it should be. It's evident to me that you are discouraged to offer 90mm Americans a chance to re-build or re-establish their credit. Is this what you really wish to accomplish???
- b. **Solution** – leave as is today – the consumer should have the choice in how they wish to pay once the account is established based on their individualized financial situation. However, I would mandate within the regulation to provide a “warranty” or “money back guarantee” to try the card out for 30 days and if consumer does not like it, refund all fees incurred. Good lenders presently do this today.

3. **12CFR.27 – Injury is not avoidable and states disclosures may not be effective**

- a. **Response** – in my opinion, disclosures are dreadfully too wordy. I challenge whether it's the focus group FRB conducted OR any consumer “on the street” and ask them what their initial response is when viewing current disclosure. Font too small, too wordy, not in layman's terms etc...
- b. **Solution** – based on your very own request to have a\*Macro International –consult and publish the document “Design and Testing of Effective Truth in Lending Disclosures” – May 16, 2007. Page 18 specifically states via consumer feedback to #2 **information was provided as efficiently, and in as few words, as possible** & #5 **plain “everyday” language was used whenever possible**. To sum up, most consumers do NOT read the disclosures and the ones that do read do NOT understand the terms. My suggestion is to re-tool, simplify disclosures which also educates in an understandable way. A simplistic summary of Key Account Terms would be a good beginning. Another example of the confusion you've created is the name “Schumer Box” – who the heck is Schumer anyway???. Why not name it “Summary of Account Terms” and skip the little footnotes. Page

9- 2<sup>nd</sup> bullet of your document from \*Macro indicates “when reading credit card solicitations, a majority of participants specifically looked for the Schumer Box. Although **they did not call it by this name** (my point on who the heck is Schumer???), these participants understood that a summary box of account terms would be included with the solicitation. Several commented that they considered this box to be the most important part of a credit card offer.” **Again, rename it and simplify it based on its importance to us the consumer!** Your consultant via the consumer is telling you this...please use what you paid for!

#### **4. 12CFR.27 – Injury is not outweighed by countervailing benefits**

- a. **Response** – I infectiously challenge your judgment or findings (facts?) in which you believe this is the case. Consider these facts, the under banked is the fastest growing population now approaching 90mm+ Americans. Odds are there may be even a FRB member cast as sub-prime, under-banked or under-served (however you wish to define – “beyond the norm”) and if not someone in your immediate families would likely be defined as such. I challenge each of you to ask if there truly is injury and further challenge that it should be looked at if this was you the lender providing a loan opportunity to a riskier population, injury...I don’t think so!. My point is back to Credit Basic’s 101 – you “risk base price” based on consumer credit worthiness. This population has response rates on average twice that of prime card. If you wish to create disparate treatment to our minority population or so called “beyond the norm” consumer, the proposals above if enacted will create the ultimate disparate treatment.
- b. **Solution** – leave as is today. By far the majority of customers understands and respects usually the only option they have from an unsecured opportunity to gain and improve credit. Though you have hundreds or thousands of communications to you that state otherwise, this merely **ONLY** represents a very small percentage of the 30mm+ current card holders who again appreciate the “second chance” by carrying a needed (more than wanted) product which is win, win, win (consumer, lender & economy). I firmly believe the majority of the letters you received regarding Reg AA R-1314 do **NOT** represent the majority, only the angry few who took the time to write to you.

#### **Conclusion**

*I really do appreciate the opportunity to share my comments and more than fair solutions with you. If your desire is to “choke” and “devastate” the economy, then adopt the entire rule as you propose. If your desire is to adopt the rule minus the above dreadful impacts I cited above, it will be almost impossible for credit card companies to survive as the cost of doing business will supersede what most underserved consumers will be able to afford.*

*Honestly, shouldn't good old American business correspond to individual risk or default? Should responsible borrowers (30+mm) who have worked hard to follow the current guidelines be punished for the actions of the irresponsible few I concur as I strongly believe the remainder of changes are pro-active consumer based, in particular the further need to educate the consumer...money well invested with a great dividend return you will see.*

*In fact, if you and the remainder of your FRB Team really want to make it to "hero" status, you should consider planting the seed of education by developing a class curriculum requiring every H.S Student to take a Credit 101(Credit Bureaus, Scorecards (FICO/Vantage), Checking account, Credit/Debit Cards etc, etc...) class so that they truly understand what responsibilities they have when they take ownership of borrowing from a lender. Junior Achievement 3<sup>rd</sup> Grade overview does not qualify here...seriously; as it's my understanding this is the only exposure a student currently has, if they are lucky that is.*

*Again, I agree with the majority of what your intent is with this amendment. However, let's do it in a way that is a positive promotion for ALL of our society.*

Respectfully submitted,

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