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

RECEIVED
OFFICE OF THE SECRETARY

Re: Docket #R-1364 – 12 CFR Part 226
Interim Final Rule - Regulation Z Changes from Credit Card Act of 2009

Dear Sir or Madam:

On behalf of FORUM Credit Union, we are providing the following official comments for the record regarding proposed changes to Regulation Z by the Federal Reserve in response to the Credit Card Act of 2009. As a not-for-profit financial cooperative owned by its members, we are concerned a number of provisions to Regulation Z being proposed as a result of egregious practices by a handful of institutions attempting to unfairly maximize their profits will create unnecessary cost and burden for institutions not involved in such practices. In our case, our member-owners will also suffer.

In principle, we are not opposed to changes in the regulation as they relate to credit cards. This seems appropriate considering the need for better transparency and disclosure in the credit card arena. We recognize there have been some unfair practices which resulted in negative outcomes for many consumers as well as a cloud of suspicion surrounding sound credit card programs and practices offered by many financial institutions, including not-for-profit credit unions. Appropriate regulation in this arena can be healthy.

However, the possible inclusion of all other open-end loans in any proposed regulation has created major challenges among many credit unions. We encourage the Federal Reserve to seriously consider these concerns and the potential impact they may have on credit union members/consumers and financial institutions alike before promulgating final regulations to Regulation Z.

Specifically, we have significant concerns about including multi-featured open-end lending plans in the Credit Card Act of 2009. While perhaps well-intentioned and inadvertently, our experience would indicate that including such loans in the new regulation would create a considerable hardship for members who borrow from us.

Most loans under this plan (in our case the overwhelming majority of such would be auto loans) have fixed terms, no available limits and are reported to the credit bureau agencies

as installment loans. However, since the loans are created under the multi-featured open-end lending plan, these loans are included in the Credit Card Act of 2009 and subject to additional regulation.

Any such regulation must consider the negative implications of its requirements. For example, by extending credit to our members through the multi-featured open-end lending plan, FORUM Credit Union can expedite future loan requests for loyal members, create simplified access to credit for our members and generate operational efficiencies for the credit union. In the case of a member-owned financial cooperative like a credit union, these efficiencies will allow the credit union to pass along the savings to the membership in the form of lower loan rates. The lack of access to available credit in a streamlined manner, along with the loss of operational efficiencies, make unnecessary regulation in this arena into a “lose-lose” proposition.

As a result of the Credit Card Act of 2009, FORUM Credit Union is unfortunately being forced to consider converting these loans going forward into a closed-end lending plan. Therefore, these member conveniences and credit union efficiencies would disappear when the credit union is forced to require redundant loan applications for each request, which in the end, will result in a higher price for credit to members. In our opinion, this is neither consumer friendly nor consistent with the purpose of extending needed credit to our members with appropriate disclosure.

Another concern with the Credit Card Act of 2009 is that loans under the multi-featured open-end lending plan will not be eligible for the convenience and safety of payroll deduction. To comply with this new act, FORUM Credit Union estimates we will be removing more than 850 members from payroll deduction payments and converting them to a monthly payment plan that will require individual action from them each month. Action, in fact, they could miss taking some months at a considerable disadvantage to their own credit rating and creating a potential record of delinquency that could have been avoided through continued payroll deduction.

Since it is not feasible to provide 21 day written notice on weekly, bi-weekly or semi-monthly payroll deducted payments, FORUM Credit Union will be forced to revise our process and, in turn, make the loan payment procedures less convenient for these members. This convenience sacrifice, coupled with potential loss in actual dollar savings enjoyed by those who receive a lower interest cost by paying their simple interest loans more frequently because they are automatically paid through payroll deduction, is one that will not be appreciated by many of our members.

The only other option available to the credit union would be to convert these payroll deducted loans to a closed-end lending agreement which involves the member having the inconvenience of completing new loan documents. The short window for compliance makes the process of collecting new loan documentation impractical. This consumer inconvenience and disadvantage is clearly an unintended consequence from the new Act and should be corrected in final rules implementing the statute.

We also have found throughout our experience that multiple notices of the same disclosure type minimize effectiveness, create confusion and serves as an irritant to many members. This effectiveness and irritation factor is not minimized by receiving the new notice via mail or electronic delivery. Unnecessary and redundant disclosures distract from those disclosures that are necessary and prudent for consumer education and protection. Unfortunately, credit union members are not given the ability to "opt-out" of such notices and will inappropriately place the cause of unwanted notices on the credit union - thus straining the relationship between a member-owner and his or her credit union.

It is our estimation that FORUM Credit Union's expense for mailing these notices (postage and administration) to be in excess of \$10,000 per month. This is in addition to all present disclosures that the credit union mails in compliance with this and other regulatory/statutory requirements. We likewise estimate that over 300 hours in staff time will be dedicated to getting the credit union in compliance by the August 20 deadline.

At the present time, very few core processors have a solution for complying with this Act. Ours does not. Thus, extraordinary internal resources are being utilized to bring the credit union into compliance in advance of the very tight deadline specified. Among the institutional resources required will be the need to devote significant internal software development resources to write a software solution that will automate the notice process.

In conclusion, we encourage the Federal Reserve to apply a reasonable and balanced standard to the Regulation Z requirements of the Credit Card Act of 2009, particularly as it relates to multi-featured open-end lending.

Thank you for the opportunity to express our comments on this proposed regulation.

Sincerely,



Gary W. Irvin
President/CEO