



Systronics Inc.

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August 11, 2009

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

Re: Regulation Z – Truth In Lending  
Document ID: R-1364  
Release Date: July 15, 2009

Dear Secretary Johnson:

We are the owners of Systronics, Inc., a company which provides core processing services to 81 credit union clients located throughout the Midwest. In developing these comments, we have consulted with our credit union clients and representatives from the credit union trade associations.

The above-referenced rule was obviously written for credit cards, and while all credit cards are open-end lending arrangements, not all open-end lending arrangements operate like credit cards. As a matter of record, we do not oppose the implementation of this rule as it applies to credit cards, just the extension of the rule to all other open-end lending arrangements.

Based on our understanding of the proposed interim final rule, and our discussions with the constituencies referred to above, we feel that imposition of the rule as currently written to non-credit card open-end lending arrangements will present significant operational challenges to credit unions and their data processing providers, will create confusion for credit union members, and provide no real consumer benefit.

## **Operational Issues for Credit Unions**

Many credit unions today allow loan payments with frequencies other than monthly in their open-end lending plans. For example, in our client base we see payment frequencies of weekly, bi-weekly, semi-monthly, 4 payments per month, and 2 payments per month. These methodologies developed over time because many credit unions originated from employer sponsorship, and payment frequencies were tied to the sponsor company's payroll schedules. The ability to use payroll deduction as a payment mechanism was convenient for the member and enabled efficient processing for the credit union. As a result, credit union operating processes (delinquency management, statements) developed with these multiple payment frequencies in mind.

With the new rule, how does a credit union manage their existing loan arrangements? How do you provide a 21-day notification on a loan arrangement where the scheduled payments are other than monthly? How do you manage delinquency? Are the existing loan arrangements, if other than a monthly payment frequency, now illegal? What transition procedures should be applied? One idea we have heard is to set all loan arrangements to a monthly payment. According to this source, a change in payment date/frequency is considered as an "inconsequential change" under Regulation Z. We disagree: a change of this type would be anything but inconsequential to the member involved.

In addition, credit unions have traditionally provided consolidated periodic statements to their members. These statements provide savings, checking, and loan information on one statement. Credit unions benefit from this efficient delivery method, while members prefer getting their account information in one statement. To comply with the 21-day notification rule, many existing statement processes will have to be re-programmed. In most cases, significant costs in the form of postage and mail handling will be incurred to comply.

### **Operational Issues For Core Processors**

All the issues identified above have to be handled by the core processing systems. Because of the very short time involved (the proposed rule was released on July 15, with an August 20 implementation deadline) core processors have an impossible situation. Before we can provide compliant systems and processes, all the operational issues identified above have to be resolved.

As with any enterprise, Systronics does not possess unlimited resources. Our current estimate is that it will take three man-months of effort to make our systems operationally compliant. The cost of this endeavor will not be passed on directly to our clients, but their service levels will suffer due to this misallocation of resources.

### **Impact On Credit Union Members**

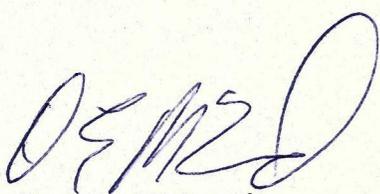
Because credit unions are member-owned and led by volunteer Boards of Directors, they are generally self-policing and thus very consumer-friendly when it comes to fees and late charges. We are at a loss as to how the implementation of this rule to non-credit card open-end lending arrangements will provide any discernible benefit to 92 million credit union members. To comply with the rule, payment frequencies and statements will change. The possible elimination of payment frequencies other than monthly would increase interest costs for members. This will cause confusion for members and impair the good relationships between members and their credit unions.

### **Recommendations**

- Exempt non-credit card open-end lending arrangements from the rule.
- If exempting non-credit card open-end lending arrangements from this rule is not possible, extending the implementation of the 21-day notification requirement will be mandatory for credit union core processors to fully comply with the rule.

- If the intent of this rule is to invalidate payment frequencies other than monthly for non-credit card open-end lending arrangements, grandfathering existing arrangements and applying the rule on a prospective basis would offer some relief.

We appreciate the opportunity to comment on this issue. Please contact us at (913) 829-9229 if we can assist with any additional information.



Dennis McCloud  
CEO



Dennis Mann  
President