

From: Credit First National Association, Dean Miller  
Subject: Regulation Z - Truth in Lending

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Comments:

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April 14, 2010 Original to follow by First Class Mail Ms. Jennifer J. Johnson, Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, NW Washington, DC 20551 Re: Proposed Amendment to Regulation Z; Docket No. R-1384 Dear Ms. Johnson: On behalf of Credit First, N.A. ("CFNA" or the "Bank"), its board of directors and executive team, I am submitting certain comments to the Federal Reserve Board of Governor's (the "Board") proposed amendments to Regulation Z issued March 15, 2010. While we appreciate the Board's efforts in developing regulations to limit the egregious activities of some lenders, we believe that the provisions of proposed Sec. 226.52, the limitation on fees, would have a detrimental effect on CFNA, our customers, and similarly situated lenders. As such we ask that the Board consider two revisions. Background of CFNA CFNA is a captive limited purpose credit card bank subsidiary of Bridgestone Americas, Inc. The bank issues closed loop private label credit cards that can only be used at authorized Bridgestone Americas retailers for Bridgestone and Firestone products and services. Because of the limited use of CFNA credit cards, applicants are often consumers without ready access to funds who either have sudden emergencies affecting their vehicles or who have purchased products or services for their vehicle and do not have access to credit from traditional third party sources. As a result, CFNA credit cards help maintain one of our customers' most valuable assets, their vehicles, properly serviced, operational and safe. CFNA credit enables Americans use of their vehicles to go to work, and complete such basic errands as going to the doctor or the grocery store. This important, but limited use credit is what differentiates CFNA credit cards from those of most lenders, and specifically general purpose credit cards. CFNA, because of the market that we serve, provides credit to higher credit risk individuals than many other general purpose credit card lenders. As a result, the Bank also

experiences a higher rate of defaults than traditional lenders. Finally, because the credit is non-secured and used to purchase products or services for their vehicles, CFNA has lower recovery rates when defaults occur. The Effect of the Proposed Rule The proposed rule will have a detrimental effect on CFNA's customers as CFNA uses fees, and in particular late fees, to offset the credit risk taken by the Bank. This is one of the only fees that are charged to CFNA clients, unlike other lenders that provide credit to customers with similar demographics but charge multiple fees such as processing fees, annual fees, or monthly fees. Further, CFNA believes that this is the most appropriate fee structure, as the late payment fees are incurred by customers that pose the highest risk to the Bank, those that are unwilling or unable to pay on time. While the Board of Governors has provided an ability to establish late payment fees based on quantitative factors such as the costs incurred by a bank or the ability to use late payment fees to deter certain behavior by customers, this analysis is costly and therefore impractical for smaller banks such as CFNA. While potentially appropriate for our business model, this type of quantitative analysis requires large amounts of data and an annual statistical analysis that is prohibitively expensive for CFNA and other similarly situated banks. As a direct result of the proposed rule, CFNA will need to change its business model and how it serves its customers. The bank will be required to decrease the amount of credit extended to riskier clients, as that credit risk will no longer be offset by certain fee income, or worse, the bank may not be in a position to extend credit at all to higher risk customers. Additionally, we may be required to implement other fees and expenses, such as annual fees, or increase the interest rate charged in order to continue providing credit to these types of client. Lower credit risk individuals may be dissuaded from applying for CFNA credit because of the higher costs/fees, and if they do apply they will potentially be subsidizing higher credit risk individuals with the fees that will need to be charged on all CFNA accounts. The ultimate effect will be to limit credit available to consumers needing or wanting necessary service on or automotive products for their vehicles. As discussed previously, CFNA credit allows our customers to receive vital products and services necessary for their daily lives. The proposed rule will limit this needed credit and hurt those consumers most in need of vehicle maintenance. The cost to comply with the first two phases of the Credit Card Accountability Responsibility and Disclosure Act has been exorbitant. The final phase going into effect on August 22, 2010 will be even more costly than the first two phases combined. This endangers the business model of private label credit card banks and may force a significant sector of the consumer lending industry out of business or assumption by a big bank. This would perpetuate a "too big to fail" business model that has proven to be precarious to the United States, and global, economy. Proposed Modifications CFNA proposes that the Board clarify one aspect of the proposed rulemaking process, and implement a modification to the rule when implemented in its final form. First, CFNA seeks to clarify that, in addition to seeking initial comments regarding the amount to be established as the safe harbor, the Board also open to comment the amount of the safe harbor once an amount has been proposed. By re-opening this to comment, institutions such as ours will be able to analyze the effect that the safe harbor will have on our business and allow us to provide comments regarding the safe harbor provision. CFNA also requests that the Board modify the rule to allow the examiners (whether from the state or an institution's primary federal regulator) to determine whether the late payment fee imposed by any one institution is "reasonable and proportional." The levels of fees and their appropriateness is not something

that should be viewed in a vacuum, but must be addressed looking at the overall fee and interest rate structure of the bank as well as the credit risk associated with the bank's customers. As such, it is only appropriate that the individual examiners that are most familiar with the institutions, their credit risk profile, and their income structure determine whether the fees imposed by a bank are both reasonable and proportionate. We thank the Board for taking time to review our comments, and hope that it will implement our modifications discussed above. Sincerely, Dean Miller - President and CEO