November 23, 2010

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

Re: Docket No. R–1366

VIA ELECTRONIC MAIL: regs.comments@federalreserve.gov

Dear Ms. Johnson,

The Michigan Credit Union League (MCUL) appreciates the opportunity to comment on the Federal Reserve Board's (the Board's) proposed amendments to Regulation Z requiring creditors that extend consumer credit secured by real property or a dwelling to disclose certain summary information about interest rates and payment changes in a tabular format. MCUL is a statewide trade association representing 95% of the credit unions located in Michigan.

In addition to the myriad of changes to credit card programs as a result of the Credit Card Act in 2009 and 2010, as well as the multitude of changes made to the way closed-end and open-end loan programs are disclosed under Regulation Z, the Dodd-Frank Wall Street Reform Act of 2010 (Dodd-Frank Act) impacts credit unions by requiring the following regulatory changes:

- New disclosures on international remittance transfers;
- Revised Home Mortgage Disclosure Act disclosure and reporting requirements;
- Regulation CC – increase to first *$200* available for next day checks;
- Report of executive compensation information to the NCUA for credit unions over $1 billion in assets;
- Permanent share insurance amount of $250,000 (signs must be updated by ***March 2, 2011***); and
- Various Truth in Lending amendments, such as:
    - Prohibition on "steering" consumers to higher interest rate loans or those with frequent resets, and certain payments to loan originators – effective ***April 1, 2011*** (though future rulemakings will be required);
    - New appraisal standards effective ***April 1, 2011***;
    - New "high cost mortgage" requirements (pre-counseling and appraisal standards);
    - New requirements on mortgage lenders to make a "reasonable and good faith determination" of a consumer's ability to repay based on "verified and documented information";
    - New escrow requirements for loans secured by a first lien on the principal dwelling (i.e., taxes and insurance); and
    - New foreclosure defenses (i.e., unlawful steering or lack of sound underwriting).

The majority of credit unions have a limited amount of staff and resources to respond, prepare and pay for these overwhelming regulatory changes. Specifically with regard to this proposed rule, a January 1, 2011 effective date does not provide financial institutions enough time to comply with these new requirements, as many rely upon third-party providers to prepare their disclosures. MCUL understands that this interim final rule was issued in mid-August, but given that the Board was open to considering comments, credit unions would have been foolish to expend limited dollars to alter disclosures when it is still possible that certain aspects of this interim rule could be amended (requiring additional changes at additional expense). The result is that there will be a ***very*** limited amount of time between the date the Board issues its response to the comments and the effective date of the rule.

While MCUL appreciates the Board's desire to simplify disclosures for consumers, MCUL urges the Board to reconsider the requirement because the proposed model forms will only serve to confuse consumers. Additionally, the disclosures required under the interim final rule differ from those required in the Good Faith Estimate (GFE) and HUD-1 settlement documents under the Real Estate Settlement Procedures Act (RESPA) that were significantly amended in 2009. Because the Dodd-Frank Act requires Truth in Lending Act (TILA) and RESPA disclosures to be integrated, MCUL strongly urges the Board to amend the Regulation Z disclosures to conform to what is already required under RESPA. Failure to do so will result in further changes to RESPA documents, further burden and expense on the part of financial institutions, and further consumer confusion.

Discussion of the Specific Rule Provisions

Periodic Payments

The interim final rule requires creditors to disclose the contract interest rate, regular periodic payment, and balloon payment if applicable. For adjustable-rate or step-rate amortizing loans, up to three interest rates and corresponding periodic payments are required, including the maximum possible interest rate and payment. If payments are scheduled to increase independent of an interest-rate adjustment, the increased payment must be disclosed.

Payments for *all* amortizing loans (except timeshare plans), must separately itemize an estimate of the amount for taxes and insurance if the creditor will establish an escrow account. If a borrower may make one or more payments of interest only, all payment amounts disclosed must be itemized to show the amount that will be applied to interest and the amount that will be applied to principal. Special rate and payment disclosures are required for loans with negative amortization. Creditors must provide the information about interest rates and payments in the form of a table, and creditors are not permitted to include other, unrelated information in the table.

RESPA requires creditors to provide maximum rate and payment examples on the GFE and the HUD-1 settlement statement. The GFE must disclose the interest rate for fixed rate loans, and for loans in which the rate or payment may change, the GFE discloses the maximum rate and payment examples. The GFE also asks the question "Can Your Interest Rate Rise?", and if so, the maximum amount is disclosed, along with when the first change will take place, and how often it could change in the future.

The passage of this interim final rule as written will only serve to confuse consumers, as two completely different disclosure tables will be provided. MCUL strongly urges the Board to remain consistent with what lenders are currently required to provide under RESPA. Failure to do so will only serve to confuse consumers.

Maximum Possible Rate During First Five Years

The interim final rule requires disclosure of the maximum possible rate at any time during the first five years after consummation, even if that is not the first adjustment, and the earliest date that rate may apply. Creditors must take into account any limitations on interest rate increases when determining the interest-rate required to be disclosed. If the interest rate may reach the maximum possible during the loan's term within the first five years, the creditor should disclose the rate as the maximum possible interest rate.

If a scheduled payment increase does not coincide with an interest rate adjustment (or rate increase for a step-rate mortgage), creditors must include a column that discloses the interest rate that will apply at the time of the increase, the date the increase is scheduled to occur, and an appropriate description such as ''first increase'' or ''first adjustment,'' as appropriate.

As previously stated, the GFE must disclose the interest rate for fixed rate loans, and for loans in which the rate or payment may change, the GFE discloses the maximum rate and payment examples. The GFE also asks the question "Can Your Interest Rate Rise?", and if so, the maximum amount is disclosed, along with when the first change will take place, and how often it could change in the future. MCUL is does not understand why the TILA and RESPA forms are required to be in sync, but do not appear even remotely similar in appearance.

Interest-Only Payments

For a payment that includes no principal, the interim final rule requires an estimate of the amount of taxes and insurance must be disclosed, including mortgage insurance. The estimated total payment including principal, interest, and taxes and insurance must also be disclosed.

The sample form H-4(H) requires disclosure of the "Maximum Ever," which includes an estimate of the estimated taxes and insurance escrow. The form as written is HIGHLY misleading, as the lender cannot control the amount of taxes and insurance a consumer will be required to pay during the life of the loan. As such, it is of no benefit to consumers to receive this disclosure, and has the appearance of binding lenders to the initially disclosed amounts. While MCUL submits that the GFE does not provide for an explanation that the escrowed amounts may change, it also does not promise that these amounts will be capped at any amount. MCUL strongly urges the Board to remove this requirement from the interim final rule.

Conclusion

Amending Regulation Z disclosures in such as way as to differ from the RESPA GFE and HUD-1 settlement statement does not serve to integrate the documents, as required by the Dodd-Frank Act. Finalizing the interim final rule as written will surely result in further changes either to

Regulation Z, RESPA, or both. Consumers are not served by ever-changing documents, and financial institutions can no longer afford to bear the burden of the increasing costs of compliance.

Financial institutions faced a deluge of regulatory amendments in 2010, and with the passage of the Dodd-Frank Act, the end to the overwhelming regulatory changes is not yet in sight. This impact has been felt more strongly on smaller institutions, which make up the majority of credit unions in this country. MCUL strongly urges the Board to consider the impact that these changes have had on financial institutions, and to reconsider the elements of the rule and suspend the mandatory compliance date.

MCUL appreciates the opportunity to provide comment on this interim final rule.

Sincerely,

Veronica Madsen
Director of Compliance & General Counsel
MCUL & Affiliates