

**Meeting Between Governor Duke and
the National Association of Federal Credit Unions**

Participants: Governor Elizabeth Duke (Federal Reserve Board Member)

Frederick Becker, Brian Berger, Frank Berrish, Patricia Briotta, James Dawson,
Anthony Demangone, David Frankil, Richard Harris, Carrie Hunt, Curtis Long,
Michael Lussier, Jay Morris, Patrick Morris, Katrin O'Connor, Michael Parsons,
Chrisalyn Santos, Dillion Shea, Randy Smith, Richard Taylor, Tessema Tefferi,
Robert Templeton, Bradford Thaler, Charles Thomas, Wai Tun and Larry Wilson
(NAFCU)

Summary: Board members and staff of the National Association of Federal Credit Unions (NAFCU), a trade association that represents the interests of federal credit unions, met with Governor Duke to discuss implementation of the interchange-fee provisions and escrow account requirements for higher-priced mortgage loans under the Dodd-Frank Wall Street Reform and Consumer Protection Act. NAFCU provided written views on these topics. A copy of these views is attached.

Attachment

Interchange Fees

Of greatest concern to most in the industry is a section of the new regulatory reform law that requires the Federal Reserve to write a new rule capping debit interchange fees at a level that is “reasonable and proportional” to the cost of the debit card transaction, excluding institutions of \$10 billion or less from its regulation. Of course, it will be difficult for smaller institutions to compete with these Fed-capped rates, thus in all probability rendering the purported \$10 billion exemption one in name only. While the Federal Reserve is required to consider the cost and instance of fraud and data security breaches in prescribing an interchange rate, indications are that the cap will be set as close to zero as possible. In addition, NAFCU believes that even though the rulemaking only applies to those \$10 billion and above, there will be a market effect felt by other institutions as major card issuers will not create a two-tiered system.

Regulation Z Proposed Rule

Currently, under Regulation Z, a “higher-priced mortgage loan” is defined as a consumer credit transaction secured by the consumer’s principal dwelling with an APR that exceeds the average prime offer rate for a comparable transaction as of the date the interest rate is set by 1.5 or more percentage points for loans secured by a first lien on a dwelling, or by 3.5 or more percentage points for loans secured by a subordinate lien on a dwelling. In cases where a mortgage loan meets the definition of “higher-priced mortgage loan,” an escrow account must be established. The proposed rule implements Section 1461 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which establishes a higher threshold for triggering Regulation Z’s escrow requirements on first-lien mortgages that exceed Freddie Mac’s loan-size limit. Pursuant to the proposed rule, the escrow requirement for higher-priced mortgage loan that is above Freddie Mac’s loan-size limit is triggered only if the APR exceeds the average prime offer rate by 2.5 percentage points or more.