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March 15, 2005

Ms. Jennifer J. Johnson
Secretary to the Board
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, D.C. 20551

VIA Email

RE: Docket No. R-1217 – Regulation Z

Dear Ms. Johnson,

We offer the following comments in response to the Board of Governors request for comments on selected issues related to Regulation Z:

Scope of review

Q1. Reviewing Reg Z in stages, beginning with open-end credit not home-secured, is a reasonable approach for a topic with the complexity of Reg Z.

Account-opening disclosures

Q2. The rules should require a minimum type size of two millimeters. This requirement should be in millimeters, rather than point type, due to the great variation of point type size for different fonts. Disclosures should not be printed in italics.

Q3. We support the inclusion of a Table of Contents to aid consumers in finding terms that are of interest to them, rather than an executive summary. An executive summary would add length to the disclosure, but would not necessarily highlight a term the consumer is looking for.

Periodic statements

Q4. § 226.7 requires that the periodic statement disclose the date the grace period ends or the time period of the grace period. If the periodic statement shows a "please pay by date" that is different from the end of the grace period, the date after which finance charges will begin to accrue should be disclosed adjacent to it. If the periodic statement discloses the grace period as a time period, it should clearly state when the period begins.

Q5. We would not support lumping fees together without specific labels. Without fee details, the consumer is not informed on ways to avoid fees and would have difficulty challenging the correctness of any fee.

Credit card application disclosures

Q7. The Schumer box is effective as designed. Instead of enumerating specific fees to be contained in § 226.5a disclosures, the requirement for § 226.5a disclosures with respect to fees and other charges should be the same as § 226.6(b).

The rules should require a minimum type size of four millimeters for the APR for purchases, three millimeters for other information in the Schumer box, and two millimeters for all other § 226.5a disclosures outside the box.

Q8. Balance transfer fees and cash advance fees should be included in the Schumer box. Currently, some promotional materials for balance transfers feature a low or zero rate, but the balance transfer fee is difficult to find. In promotions where the balance transfer rate is featured prominently outside of the Schumer box, the balance transfer fee should be disclosed again adjacent to the prominently displayed balance transfer rate.

Subsequent disclosures

Q9. Promotional materials encouraging certain transactions should disclose the rates and fees associated with the transactions. The rate and fee for a transaction should be disclosed adjacent to each other. Convenience check mailings should clearly disclose that use of a check triggers a cash advance fee.

Model forms and clauses

Q11. Additional model clauses and forms would be helpful. Specific examples are default rates, introductory offers, and definition of balance computation methods.

Classification of fees as "finance charges" and "other charges"

Q14. Consumers learn what fees will be imposed (to the extent that fees are disclosed) either at the time of application or account-opening. To the extent that fees are charged that are not disclosed (for example, returned check fees), consumers do not learn of the fee until it is billed. The regulation should require prior disclosure of all fees, but disclosure of generic-type fees need not be in the specific credit disclosures. For example, if a financial institution discloses in general account disclosures that it charges a returned check fee, additional disclosures should not be necessary with each credit type.

Q15. Consumers primarily relate to two concepts: rate and fee. The inclusion of certain fees in the calculation of the effective APR on the periodic statement is confusing to consumers, who are expecting to see interest accruing on their account at a specific rate.

The combination of interest and certain fees into a calculation for purposes of showing the true “cost of credit” may be informative, but it should be separate from the calculation of interest on the periodic statement. A truer picture of the “cost of credit” might appear from an annual calculation, which would have the added benefit of avoiding the skewing that occurs with a monthly calculation.

Q20. The classification of fees should be consistent for open-end accounts and closed-end loans, but the inclusion of finance charges into calculation of an effective APR need not be the same. See Q15 above.

“Effective” APR on periodic statements

Q24. As noted above, the current use of effective APR on periodic statements is confusing to consumers and should be eliminated. The periodic statement should show (a) the periodic rate that is being used to calculate interest, and (b) fees imposed, stated as a dollar amount.

Q25. If it is determined necessary to show the cost of credit as a percentage of credit extended, that calculation should be disclosed separately from the interest rate. As noted above in Q15, an annual calculation would give a more accurate picture. An annual summary showing the dollar amount of fees and/or interest paid may be more meaningful to consumers than a percentage.

Disclosure about rate changes

Q26. Mailing a notice 15 days before the effective date is adequate to provide timely notice of a change in interest rates.

Q27. Penalty rates are required to be disclosed in the Schumer box. Whether this is adequate to enable consumers to make timely decisions about how to manage their accounts is a question of consumer education for which disclosure rules are not the appropriate mechanism.

Balance calculation methods

Q28. The balance calculation method can have a very significant effect on the cost of credit.

Q29. Consumers do not understand how different balance calculation methods affect the cost of credit. We do not believe that additional disclosures are an effective way to address this issue; it is more appropriately addressed by consumer education.

Q30. We recommend that the Federal Reserve Board develop an informational brochure with examples of calculations that demonstrate the difference in cost of credit due to the balance calculation method used. The information and examples should also be available on the FRB website.

Disclosing the effects of making minimum payments

Q31. The regulations should require that the minimum payment be sufficient to not result in negative amortization. The periodic statement should include a disclosure that states the time needed to pay off the balance at this interest rate with minimum payments and no additional charges.

Information on the effect of making only minimum payments should be included in the consumer education materials recommended in response to Q30 above.

We also recommend that consumer education materials contain information on merchant credit plans and deferred payment plans. In deferred transactions, consumers do not always realize that interest may be charged for billing cycles back to the purchase date if the balance is not paid in full by a certain date.

Q33. – The following is our average payment data for 2004:

Classic - 10.3% made the minimum payment
61.9% made greater than the minimum payment
17.3% made payment in full
10.5% made less than the minimum payment

Gold - 8.5% made the minimum payment
59.3% made greater than the minimum payment
21% made payment in full
11.2% made less than the minimum payment

Payment allocation

Q36. Reg Z should require that promotional materials disclose payment allocation in order for consumers to determine whether they would benefit from taking advantage of the promotion. For example, if a consumer regularly pays the balance in full each billing cycle to avoid finance charges, a 0% balance transfer offer for six months is of no benefit if the transfer must be paid in full in the next billing cycle to avoid the regular rate being charged on subsequent purchases.

Unsolicited issuance of credit cards

Q46. With the increased incidence of credit card fraud and identity theft, the Board should amend Reg Z to require that all cards be sent unactivated, including additional and replacement cards.

Prompt crediting of payments

Q51. The Board should continue to allow reasonable cut-off hours. Not all processing systems are able to handle crediting of payments as of the date received regardless of time.

We appreciate the opportunity to provide comments for consideration during the Board's review of Reg Z.

Sincerely,

Christina Moraski
Sr. Vice President/General Counsel