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December 15, 2005

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

Dear Ms. Johnson,

The Georgia Credit Union League (GCUL) appreciates the opportunity to comment on the Federal Reserve Board's (FRB's) second advance notice of proposed rulemaking (ANPR) regarding the open-end (revolving) credit rules of the FRB's Regulation Z, which implements the Truth in Lending Act (TILA). The FRB is in the process of reviewing Regulation Z in stages over the next few years. This ANPR is the second stage of this review.

GCUL is the state trade association and one member of the network of state leagues that make up the Credit Union National Association (CUNA). GCUL serves approximately 190 credit unions that have over 1.7 million members. This letter reflects the views of our Regulatory Response Committee, which has been appointed by the GCUL Board to provide input into proposed regulations such as this.

Background.

The FRB has issued a second ANPR requesting comments on possible changes to the open-end credit rules under Regulation Z, specifically the rules applying to credit cards and merchant-specific credit plans. FRB will review the comments received and then consider issuing specific proposals for amending these rules.

This second notice requests comments on how the FRB should implement provisions of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Bankruptcy Act) that amend the TILA. These amendments include new disclosures for periodic statements and for credit card applications and solicitations.

The FRB has requested comment on numerous issues in the form of specific questions. The FRB has numbered these questions, beginning with Question 59, which follows the

58 questions outlined in the first ANPR. These new questions are grouped within categories that describe the new TILA provisions of the Bankruptcy Act. Our responses to many of the questions follow.

Summary of GCUL's Position.

Minimum Payment Disclosures

Question 59 – Are there certain types of transactions or accounts for which minimum payment disclosures are not appropriate? An example may be those in which there is a fixed repayment period, such as with home equity lines of credit (HELOCs), since consumers will already be aware of the length of time they have to repay the debt. For these types of products, should there still be a warning indicating that making minimum payments will increase the amount of interest that is paid? Another example may be reverse mortgages in which the time to repay cannot be estimated since it depends on when the home is sold or the owner dies.

GCUL Response: Loans with fixed repayment periods should not be required to have minimum payment disclosures.

Question 60 – Should creditors be able to omit these minimum payment disclosures for certain accountholders, such as those who do not revolve balances or those who make monthly payments that regularly exceed the minimum?

GCUL Response: We believe that creditors should have the option of omitting minimum payment disclosures for these types of situations.

Question 61 – Some credit unions and retailers offer open-end plans that also extend credit with fixed payment periods and payment amounts that are used to purchase “big ticket” items. How should the minimum payment disclosures be implemented for these types of credit plans?

GCUL Response: We believe the FRB should provide a sample disclosure. For example: “If your average, on-time monthly payment is at least \$_____, your purchase will be paid in full by the end of the “interest free” period and finance charges will be avoided.”

Question 62 – The two hypothetical examples use a 17 percent APR, and the FRB has the authority adjust this APR. Currently, data shows that the average APR for credit plans is about 13% for all credit plans and about 15% for accounts in which interest is assessed. Should the FRB change the 17 percent APR based on this data? If so, what should the APR be?

GCUL Response: We believe the examples should be left alone. These are for demonstrative purposes only.

Question 63 – Should the account balance, APR, or “typical” payment used in the hypothetical examples be used for open-end credit that are not credit card accounts, such

as HELOCs, reverse mortgages, and other types of credit lines? If not, what information should be used?

GCUL Response: Again, we believe these are for demonstrative purposes only. Additionally, this information has already been disclosed at the time of loan closing.

Question 64 – *The term “typical” payment may be perceived by consumers as the industry norm that they should use to compare to their own accounts, as opposed to being merely an example. Should the term “typical” be changed? If so, how can this be described as an example that does not represent the actual account term?*

GCUL Response: We believe the terminology “Payment Example” is more conducive for this purpose and would be less confusing to consumers.

Question 65 – *The FRB must develop a formula to generate the required tables. Should the FRB use the same assumptions that are used for the hypothetical examples with regard to the balance calculation method, grace period, and the assumption that there is no residual finance charge? For example, should one of the assumptions be the average daily balance method that is commonly used by creditors?*

GCUL Response: We believe this would be an appropriate practice.

Questions 66 & 67 – *Should the FRB use a “typical” minimum payment formula. What should this formula be? Should one percent of balance in addition to the finance charge be considered “typical?” Are there other approaches that should be considered? What is the typical formula for other types of accounts, such as HELOCs?*

GCUL Response: We believe the one-percent balance method is appropriate.

Question 68 - *When maintaining their own toll-free numbers, should creditors have the option or be required to use their actual minimum payment formula, instead of the “typical” formula used by the FRB? Would the improved accuracy of the repayment estimate be outweighed by the burden of requiring the actual payment formula?*

GCUL Response: We believe creditors should have the option of providing their actual minimum payment formula.

Question 70 – *What portion of credit card accounts accrue finance charges at more than one periodic rate? Are balances typically distributed in a particular manner? For example, is a greater portion of the balance accruing finance charges at the higher or lower rate?*

GCUL Response: Finance charge accrual rates can vary from institution to institution. Typically, balances are distributed in a particular manner (i.e. promotional rates, etc.). Various factors affect how balances are distributed. These factors can include: 1) the

amount of the balance transfer, 2) the balance prior to the transfer, 3) the institution and 4) distribution procedures.

Questions 71 & 72 – *The hypothetical examples assume a single APR. Would this be appropriate for accounts that have multiple APRs and, if so, what should the APR be? Should the FRB instead adopt a formula that uses multiple APRs and incorporates assumptions about how those APRs should be weighed? Should the consumer receive both an estimated repayment period using the lowest APR and another period using the highest APR? Are there other ways to account for multiple APRs in estimating the repayment period?*

GCUL Response: Due to the complexity of trying to account for multiple APRs, we believe it would be appropriate to quote a single APR such as the highest rate.

Question 73 – *One approach for multiple APRs may be to require creditors to disclose on the periodic statements the portion of the ending balance that is subject to each APR so consumers may provide this information when using the toll-free telephone number. What would be the compliance cost if creditors were required to provide this information?*

GCUL Response: We believe most creditors are already utilizing this practice. If not, we believe the cost would be minimal to implement.

Question 74 – *As an alternative to disclosing this information on the periodic statement, creditors could program their systems to calculate the repayment period based on the APRs applicable to the consumer's balance. Should this be an option or should it be required? What would be the compliance cost if this was required and would this cost be outweighed by the benefit of improving the accuracy of the repayment estimates?*

GCUL Response: We believe this should be an option, not a requirement. We believe the cost to provide this information would outweigh any potential benefit. Additionally, it is an estimate, not an accurate figure.

Question 75 – *Assumptions would also have to be made as to how payments are allocated to different balances. Should it be assumed for purposes of the toll-free telephone number that payments are always allocated first to the portion of the balance with the lowest APR?*

GCUL Response: We believe this is an accurate assumption as most processors already handle it this way.

Question 76 – *Consumers may need to be aware of certain assumptions with regard to the repayment estimates, such as that the estimate is based on the assumption that there are no new transactions, late payments, changes to the APR, and that only minimum payments are made. Which of these, if any, should be disclosed to the consumer? Should they be disclosed on the periodic statements or when the consumer uses the toll-free telephone number? Should the FRB provide model clauses for these disclosures?*

GCUL Response: If required, we believe all of this is pertinent and should be disclosed to the consumer. We believe that creditors should have the option of how this information is disclosed to the consumer. Model clauses provided by the FRB should be created as a way of ensuring accuracy.

Question 77 – If the creditor elects to provide the actual number of months to repay the balance, instead of an estimate, what standards should be used in determining whether the creditor has accurately provided the actual number of months? Should the creditor be considered to have provided the actual number of months if the calculation is based on certain terms identified by the FRB, such as the actual balance calculation method, payment allocation method, all applicable APRs, and the creditor’s actual minimum payment formula? With respect to other terms affecting the repayment calculation, should creditors be permitted to use the assumptions specified by the FRB, even if they do not match the terms of the consumer’s account?

GCUL Response: We believe that materiality, as defined under GAAP or the AICPA, could be used as the standard for determining whether a creditor has accurately provided the actual number of months. If that standard isn’t utilized, we believe a tolerance for error of 10% should be permitted (see response to Question #78).

We believe the creditor should be considered to have provided the actual number of months if the calculation is based on certain terms identified by the FRB.

In regards to the final question, we feel creditors should be permitted to use the assumptions specified by the FRB, even if they do not match the terms of the consumer’s account.

Question 78 – Should the FRB adopt a tolerance for error in disclosing the actual repayment periods? What should that tolerance be?

GCUL Response: We believe this will depend on the material that is required to be disclosed. Depending on those requirements, we feel a 10% tolerance should be permitted.

Question 79 – Is information about the actual number of months to repay readily available to creditors based on current accounting systems, or would new systems have to be developed? What would be the cost if new systems had to be developed?

GCUL Response: For some processors with newer modules in place, such systems are available. However, due to the cost of such modules, it is not feasible to implement this ‘across the board’ to all institutions.

Question 82 – Are there other alternatives to providing the repayment periods other than the toll-free telephone numbers? Should the FRB encourage creditors to place the estimated or actual repayment period on the periodic statements by exempting them from maintaining the toll-free telephone numbers? What difficulties would there be in providing this information on the periodic statements?

GCUL Response: For some institutions, the higher costs of providing this information on periodic statements would prove troublesome. We believe that institutions should have the ability to select which option is right for their institution (i.e. telephone number or periodic statement disclosure).

Questions 83 & 84 – What guidance should the FRB provide regarding the location or format of the minimum payment disclosures that will be required on periodic statements? Should there be a minimum type size requirement? What model forms or clauses should the FRB consider?

GCUL Response: We believe the FRB should remain consistent and keep the minimum type-size requirement at the standards currently in place with other regulations (i.e. 8-point type).

Introductory Rate Disclosures

Question 85 – The FRB is required to issue model disclosures and standards that provide guidance on satisfying the requirement that the introductory rate disclosures be “clear and conspicuous,” which is defined as “reasonably understandable and designed to call attention to the nature and significance of the information.” What guidance should the FRB provide? Should there be format requirements, such as a minimum type size? Are there other requirements the FRB should consider? What model disclosures should the FRB issue?

GCUL Response: We believe there should be format requirements such as minimum type size that is consistent with other regulations. We believe the FRB should provide a complete set of model disclosures to ensure accuracy, consistency and compliance.

Question 86 – The term “introductory” must be in “immediate proximity” to each mention of the introductory APR. What guidance should the FRB provide in interpreting this requirement? Is it sufficient that the term “introductory” immediately precede or follow the APR, such as “Introductory APR 3.9%” or “3.9% APR introductory rate?”

GCUL Response: We believe both examples are sufficient.

Question 87 – The expiration date and the APR that will then apply must be closely proximate to the first mention of the introductory APR, although the introductory APR may appear several times. What standards should the FRB use to identify the first mention? Should it be the APR with the largest font size or the one located highest on the page?

GCUL Response: We believe it should refer to the first mention in the document, most likely the one located highest on the page.

Question 88 – *For direct mail offers that include several documents, should the FRB identify one document that contains the first mention of the introductory APR or should this disclosure be included in each document that mentions the introductory APR?*

GCUL Response: We believe it should be included in each document that mentions the introductory APR.

Question 89 – *The expiration date of the introductory APR and the rate that will apply after expiration must be in a “prominent location” that is “closely proximate” to the introductory APR. What guidance should the FRB provide for this requirement?*

GCUL Response: We believe no further guidance is needed.

Question 90 – *What guidance should the FRB provide in disclosing the rate that applies after the introductory rate when a creditor uses risk-based pricing? Should all the possible rates be disclosed or should a range of rates be permitted, indicating that the actual rate will be determined based on creditworthiness?*

GCUL Response: We believe a model disclosure would be best. If not provided, however, we believe a range of rates should be sufficient.

Question 91 – *The Bankruptcy Act requires a general description of the circumstances that may result in revocation of the introductory rate, which must be disclosed “in a prominent manner” on the application or solicitation. What additional rules or guidance should be provided on what constitutes this “general description?”*

GCUL Response: We would prefer the FRB to provide a list of examples. Additionally, a model form should be provided. We believe a disclosure similar to the “Schumer Box” now provided for credit card disclosures is a format that would be easily understood.

Question 92 – *The introductory rate disclosures apply to applications and solicitations that are sent by direct mail or provided electronically. Should the FRB’s guidance for direct mail differ from the guidance for disclosures that are sent electronically?*

GCUL Response: No.

Internet Based Credit Card Solicitations

Question 93 – *These Bankruptcy Act provisions concerning Internet offers refer only to solicitations, in which no application is required, although this may be interpreted to also include applications. Is there a reason that Internet applications should be treated differently than Internet solicitations?*

GCUL Response: No.

Question 95 – *What guidance should the FRB provide as to when disclosures are “readily accessible to consumers in close proximity to the solicitation?” In the interim rules issued in 2001, the FRB requires that the consumer must be able to access the disclosures at the time the application or solicitation reply form is made available electronically. Examples in which this requirement can be satisfied include a non-by-passable link on the application or reply form, a reference that the cost information either precedes or follows the electronic application or reply form, or having this information automatically appear on the screen when the application or reply form appears. Is additional or different guidance needed?*

GCUL Response: We believe this guidance is sufficient.

Question 96 – *What guidance should the FRB provide on what it means for the disclosures to be “updated regularly to reflect current policies, terms, and fee amounts?” Would a 30-day standard be appropriate, which is the standard suggested in the 2001 interim rules?*

GCUL Response: We agree with the 30-day standard.

Disclosures Related to Payment Deadlines and Late Payment Penalties

Question 99 – *Currently, Regulation Z allows a “cut-off” hour, in which a payment does not have to be credited on the day it is received if received after a certain hour on that day. In the last request for comments on the Regulation Z open-end credit rules, the FRB requested comments on whether cut-off hours should be allowed to continue. If allowed to continue, should the cut-off hour be disclosed on the periodic statement in close proximity to the due date?*

GCUL Response: We believe the cut-off hour should be permitted to continue. Those institutions that batch-process would run into problems if this were not permitted to continue.

Question 100 – *Should the FRB require that any increased APR that would apply if a payment is late be disclosed along with the late payment fee disclosure?*

GCUL Response: We believe that a statement saying that the rate will increase if timely payment isn't made should be required, but not the actual rate, as it may change.

Question 101 – *Are there any special issues applicable to open-end credit other than credit cards that the FRB should consider with regard to the late payment fee disclosure?*

GCUL Response: No.

Disclosures for Home-Secured Loans that may Exceed the Home's Fair Market Value

Question 102 – *What guidance should be provided regarding the meaning of when the “amount of credit extended may exceed the fair market value of the home?” Should this apply when the extension exceeds fair market value or when this extension, combined with the existing mortgages, exceeds the fair market value?*

GCUL Response: No further guidance is needed. This should apply when the total obligations exceed fair market value.

Question 103 – *When determining if the loan “may exceed” the fair market value, should only the initial amount of the loan and the current property value be considered or should other circumstances be considered, such as a possible increase in the loan amount if the loan terms allow for negative amortization?*

GCUL Response: Due to the potentially long list of other possible circumstances, we believe that only the initial amount of the loan and the current property value should be considered.

Question 104 – *What guidance should the FRB provide on how to make these disclosures “clearly and conspicuously?” Should model clauses and forms be provided?*

GCUL Response: Yes.

Question 105 – *Disclosures for closed-end loans are generally provided within three days of application for home-purchase loans. Is additional guidance needed for these Bankruptcy Act disclosures that must be provided at the time of application in connection with closed-end loans?*

GCUL Response: No additional disclosures are needed.

Prohibition on Terminating Account for Failure to Incur Finance Charges

Question 106 – *What guidance should be provided on when an account expires? Should the expiration date on the credit card be considered the expiration date of the account?*

GCUL Response: No further guidance is needed. The expiration date on the card should be considered the current expiration date of the account.

Question 107 – *Are there issues with open-end credit accounts other than credit cards that the FRB should consider with regard to these requirements?*

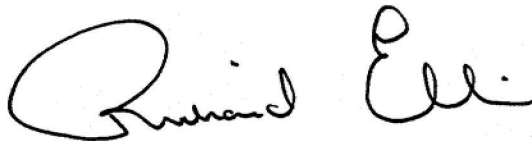
GCUL Response: No.

Question 108 – Should the FRB provide guidance on the provisions allowing the creditor to terminate the account for inactivity in three or more consecutive months, such as what constitutes “inactivity”?

GCUL Response: No.

Thank you for the opportunity to comment on the second advance notice of proposed rulemaking (ANPR) regarding the open-end (revolving) credit rules of the FRB’s Regulation Z. If you have questions about our comments, please contact Cynthia Connelly or me at (770) 476-9625.

Sincerely,

A handwritten signature in black ink that reads "Richard Ellis". The signature is written in a cursive style. To the right of the signature is a vertical red line.

Richard Ellis
Vice President/Credit Union Development