



October 10, 2007

Mrs. Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federal

RE: Regulation Z, Truth in Lending
Docket No. R-1286

Dear Ms. Johnson:

Texas Dow Employees Credit Union appreciates the opportunity to comment on the proposed changes to Regulation Z.

TDECU is a \$1.2 billion credit union serving 105,000 members through 13 branch offices as well as thousands of members throughout the United States and internationally.

It is extremely important that any implementation of changes to Regulation Z take into account the significant difference between open-end revolving credit versus "open-end" master agreements where every subsequent advance is made with a new disclosure of the interest rate, the term in months, and payment amount.

There is no doubt that there have been serious abuses by credit card companies which must be addressed, but those issues concern open-ended, revolving credit, wherein unscrupulous lenders arbitrarily change rates, fees and terms.

In reading the comments already submitted regarding this proposal, it is easy to see that virtually every one of the comments addresses credit card issuer abuse of consumers with open-ended, revolving credit accounts.

I could not find a single comment that addressed any need to change rules that apply to open-end master loan agreements with subsequent advances.

Please do not ruin an excellent consumer product while attempting to stop abuse by credit card issuers.

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The problem with the present proposal is that it does not recognize that there can be fully-amortizing, fixed-rate, fixed-term, fixed-payment advances under a “master note” agreement that cannot be changed at will by the lender. For our credit union, the vast majority of advances under “open-end” agreements are fixed-rate, fixed-term, and fixed-payment “closed-end,” fully-amortizing advances.

These subsequent advances are, in fact, exactly like mini-“closed-end” loans under a master loan agreement.

This offers the consumer all of the convenience of open-end credit with all of the financial protections of closed-end loans. It is a win-win for the consumer because the lender cannot change the terms.

The proposed changes would unnecessarily encompass the presently regulated, fully disclosed, open-end “master loan agreements” – most with fixed-rate subsequent advances.

Open-end lending contracts, with subsequent **fixed-rate, fixed-term, fixed payment** advances allow credit unions to establish long-term borrowing relationships with their members by creating a single account with an open-end plan “master” agreement and then underwriting subsequent loan advances under “the plan”.

This allows the member to obtain many types of loans, both secured and unsecured, with the consumer having the option of fixed or variable rates.

Under presently regulated open-end loan agreements, disclosures of terms are provided with each new advance under the plan as well as on **monthly** statements.

This is an important point: under existing Regulation Z rules every non-revolving advance under a master note agreement receives new full disclosure of the interest rates, the term in months and the payment amount. Nothing is hidden.

Under a master note, open-end loan agreement, it is we, as the lender, who is held to the terms of one master agreement. To have new disclosures of all terms and conditions every time a new loan advance is needed, and require new loan documents to be executed, would be worse for the consumer, not the lender.

If the Federal Reserve Board’s proposal becomes effective, this will bring an end to multi-featured, open-end lending as used in the credit union industry due to the increased risk involved in making such loans primarily because of the proposed self-replenishing feature.

Without the ability to individually approve and underwrite a loan and subsequent advances, lenders would not be able to determine risk associated with a new loan or determine an appropriate amount of the loan.

Lenders would also lose the opportunity to calculate a debt ratio in order to determine if a member is overextended and counsel the member accordingly.

On the other hand, each new advance under the master note system presently in place provides the opportunity for credit union staff to counsel members about actual or potential credit problems. **The proposed self-replenishing provision would eliminate this ability.**

By eliminating the ability to pull credit reports and individually underwrite subsequent advances, no responsible institution would make a loan under an open-end plan as proposed because they would be unable to determine a risk-based rate or maximum loan amount.

Credit unions use open-end lending to meet the convenience needs of its members. For over 25 years open-end lending has been utilized by credit unions as a standard practice and is supported by Regulation Z. Again, search all of the comments in support of the proposed changes. I doubt that you will find even one comment that indicates a problem with open-end loan agreements as employed by credit unions.

Credit union members have become accustomed to the convenience that a multi-featured open-end plan provides without giving up any consumer protections.

A recent example of the convenience that an open-end lending master agreement provides concerns one of our members whose husband is in the military and stationed in Iraq. She totaled her car in an accident and needed to purchase a replacement used vehicle. The insurance settlement was not enough to purchase a decent vehicle.

Without an open-end plan, the wife - without independent income - would have had to wait until her spouse was in an area where he could be contacted in order to provide the funds needed. This would have left her without a vehicle until her husband could receive and sign paperwork which would have been a substantial inconvenience to her. Since the couple had a jointly-signed, open-end plan on file, the credit union was able to complete and fund the loan conveniently and expeditiously the same day.

Another example of the convenience that open-end lending affords is our member who is presently working a "shut-down" procedure at a distant, large chemical plant. He needed funds to send to his daughter whose car had broken down while she is away at college. He was unable to leave the plant, so he called the credit union. Because he had an open-end plan agreement on file, funds were advanced and immediately transferred to his daughter's account for her auto repairs.

Other examples include members who need money for other expenses such as home repairs without the burden of placing a second mortgage on their homestead or other large dollar purchases.

Because of work and busy schedules, many members are unable to come to the credit union to sign closed-end loan documents. Many members also live out of town or out of state which would make it impossible to visit a branch office. Requiring the mailing or faxing of paperwork would delay the transaction.

Members desire the convenience that open-end lending affords. We currently process through our call centers approximately 5,000 open-end loans a year (25% of our consumer loans). Members have become familiar with obtaining loan advances from their credit union in a quick and convenient manner and expect to continue to do so.

Again, each advance is actually a "mini-closed-end" loan, each with its own rate, term and payments.

The proposed amendment will not only cost the members in terms of convenience but the cost of adding additional staff and retraining existing staff, as well as changing contracts and documentation and updating data processing systems that will inevitably be passed on to consumers in the form of higher loan rates. The result will be that members will be paying more for less service.

I cannot believe this is the outcome that the Federal Reserve Board intends.

The proposed amendment virtually eliminates all of the advantages that open-end, master note lending provides the borrower without adding any protections not already in place. It will force consumers into obtaining far more costly unique closed-end loans every time they finance a major purchase – especially for "point of sale" purchases for large items in order to have the convenience necessary in today's busy lifestyles.

In addition to all that has been stated above, there is an even greater concern - especially in terms of helping people of modest means.

Texas DOW Employees Credit Union is committed to offering an economically viable alternative to the scourge of check-cashing and payday lending that is keeping people in economic bondage.

We have committed to open at least eight and as many as ten, alternative lending outlets in the next two years. It was our intention to use open-ended loan agreements with disclosed fixed-rates and fixed-terms and fixed payments for each advance.

If the Federal Reserve's proposed changes are implemented it will destroy this initiative because we will then have to have borrowers sign new loan agreements every time for loans as small as a few hundred dollars. This drives up the cost significantly more than using a master note with subsequent advances.

The proposed changes to Regulation Z, especially if the self-replenishing feature is applied to open-end "master note agreements," will kill the economic viability of a desperately needed alternative to predatory lending.

We strongly urge that any proposed changes to Regulation Z not adversely impact open-end master loan agreements. Yes, fix the credit card abuse part of the problem if needed; but, make a clear distinction and exemption for advances under "open-end" master note agreements.

In order to protect consumers who have "open-end" loan agreements (versus revolving credit agreements that can be changed at will by a lender) all that is necessary is to require disclosure of the interest rate and term (in terms of months), and the monthly payments at the time of each new advance under the original master agreement. That is what is done now.

Sincerely,

Edward C. Speed
President and Chief Executive Officer
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ECS/dg