American Airlines Federal Credit Union

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

RE: Comments on Docket No. R-1286 - Reg. Z (Open-end Credit)

Dear Ms. Johnson:

I am writing on behalf of American Airlines Federal Credit Union (AA Credit Union). AA Credit Union has over $4.4 billion in assets, is the ninth largest credit union in the United States and has over 210,000 members located throughout the country. Additionally, I am a current member of the Board of Governors of the Federal Reserve System's (Board) Consumer Advisory Council.

On behalf of AA Credit Union, we would like to thank the Board for reviewing the open-end lending rules of Regulation Z (Proposal). We realize that this was a very time-consuming process and appreciate the Board's efforts in updating this very important regulation.

Finance Charge

The Board is proposing in its official staff commentary to adopt a new rule that all transaction fees on a credit card plan be considered finance charges. We strongly oppose this change. As a federal credit union, we are subject to a current statutory usury limit of 18%. This is set by our regulator, the National Credit Union Administration.

If all transaction fees were to be considered as finance charges, many federal credit unions would exceed the usury ceiling. It would be unfair to penalize only one small segment of the financial industry which has this limitation.

Solicitation and Application Disclosures

Under the Proposal, certain information must be given in a tabular table, in a certain size font, bolding certain information and cross-referencing certain information within the table. We agree that placing the information in tabular form makes it easier for our members to read and understand.

Under the "APR for Balance Transfers" section in the "Notice Regarding Interest Charges" disclosure, the disclosure states that payments will be applied to balance transfers first and then to purchases. This is not always the case. Usually, financial institutions will apply payments to the lowest APR notwithstanding if it is for purchase or balance transfers. Financial institutions need to be given the option of amending the language in this box if the financial institution applies payments to the lowest APR so that they can relay this correct information to its consumers.

Currently, the Proposal also requires in the tabular disclosure, a separate box each for purchases, balance transfers and cash advances so that a financial institution may list the different APRs charged for each particular type of transaction. However, credit unions and some other financial institutions generally charge the same APR for purchases, balance transfers and cash advances. Therefore, flexibility should be given so that these three boxes may be merged if the same APR is charged.

In the Web site section, we believe that it would be very useful if the Board's Web site educated consumers about the type of features they should look for in a credit card that best suits their needs depending upon their behavior. Generally, consumers either pay their credit card balances in full each month and are considered transactors or they do not pay off their balances each month and are considered revolvers. A recent study has shown that rewards programs are generally more important to transactors while low APRs and low fees are more important to revolvers.

Ideally, the Web site should also provide financial education material so that consumers looking for this type of information have a place to start. Information or links to credit counseling, how to save, how to budget and so forth should also be made available on the Board's Web site. Additionally, it would be very helpful to consumers if there was information about how to obtain a credit card from all types of credit card issuers including credit unions. As stated in a recent *Consumer Reports* article, credit union credit cards were highly rated because due to the card features and service offered.

Additionally, in the "Penalty Fees" box, instead of stating three times "[y]our APRs may also increase; see Penalty APR section above," we recommend that this statement just be made once at the top of that particular box. Stating this sentence three times is redundant, confusing and will not change a consumer's behavior.

Initial Disclosures

Currently, the only major differences between the solicitation/application disclosures versus the initial disclosures is that the initial disclosures contain the APR that is applicable to that particular consumer instead of a range of APRs, the foreign transaction fee is listed and a billing rights sentence is added.

To alleviate the possibility of our members being confused due to receiving various disclosures and having them wonder what the differences are between the solicitation/application and initial disclosures and to avoid the cost of having various types of paper disclosures on hand, we request that financial institutions have the option of combining the solicitation/application and initial disclosures.

We are also supportive of the Board's Proposal allowing creditors to give certain disclosures orally at the time in which a particular service is requested.

Periodic Statement and Minimum Payment Warning

Under the Proposal as required by the Bankruptcy Abuse Prevention and Consumer Protection Act, credit card issuers are required to give minimum payment information on the periodic statement so that a consumer can see how long it would take for them to pay off a credit card balance if they made only the minimum payment was made each month.

We believe that our members would find this disclosure helpful, only if we give them information that is particular to their credit card balance so that they could easily see how long it would take them to pay off their balance. It would not be helpful to our members if we gave them a generic payment example with a toll free telephone number to call.

Our members primarily work for American Airlines and/or are in the air transportation industry and are therefore very busy. If consumers are forced to make a phone call to obtain the actual repayment disclosure, it is doubtful that many consumers would take the time to make this call.

Also, from a cost point of view, we would prefer to give each member their customized minimum payment warning on their statement instead of giving a generic hypothetical example and then having to hire more telephone representatives to handle calls from members who would most likely be confused by the generic example. Additionally, as long as a financial institution provides a good faith estimate on how long it would take to pay off a credit card balance, there should be a safe harbor provided to financial institutions.

Because many credit unions and smaller financial institutions rely on third party vendors to process and mail their credit card statements to their members/customers, we would respectfully request that you give our vendors ample time to implement this change so that financial institutions are able to provide the customized warning instead of the generic example.

Change in Terms

Currently, the amount of advance notice required under Regulation Z to change terms is 15 days. The proposed amendments would extend this notice requirement to 45 days. While we believe our members should have adequate time to decide whether it wants to keep using a credit card or make other financial arrangements, we believe that 45 days is too long.

Under the Proposal, AA Credit Union would be required to send out these notices via its periodic statements. We mail our periodic statements on a four week cycle. Because of this, we believe that we are already giving an average of anywhere from 25 to 60 days notice before any change in term can become effective, since no change can become effective until the last cycle of statements is mailed. To extend the change in terms notice to 45 days would essentially require us to give at least 50 if not 90 days notice before a change in terms could become effective. This would put many institutions especially smaller ones at a financial disadvantage since we would not be able to react quickly enough to changes in the marketplace. This would penalize those institutions who do not have the luxury of mailing all of their statements on the same day

We would recommend that 30 days notice be required for a change in terms notice. That way all financial institutions would be able to make timely decisions based on financial conditions.

Penalty APR

The Proposal also requires that before a penalty APR can be imposed, that credit card issuers give the consumer 45 days notice. We do not believe that this is necessary as the penalty APR is disclosed in the application/solicitation disclosures and again in the initial disclosures. Additionally, for federal credit unions, we are currently capped at 18% for a usury and therefore do not charge an outrageous penalty APR.

We would request that no additional notice for penalty APRs be required due to the ample notices that are already given.

For Multi – Featured Open-End Lending Plans

The Proposal would significantly change the rules that currently apply to multi-featured open-end lending plans. At this time, our borrowers each have an open-end plan with multiple subaccounts. This allows our member borrowers to access a variety of different types of non-mortgage consumer loans under a single plan such as a line of credit, vehicle loan or a personal computer loan. Borrowers receive the required open-end lending disclosures up front, which is very convenient to them. For each loan that they take out, we inform them of the payment amount, payment term, APR and loan amount.

The Proposal's official staff commentary would require that this type of credit plan be self-replenishing as to each subaccount and that each loan subaccount could not be underwritten at the time of the advance. AA Credit Union strongly opposes this change. Relying on the

commentary that was published over 25 years ago, almost half of the credit unions throughout the country began offering open-end lending as a convenient way to make loans to its members. Our members have come to enjoy this convenient way of obtaining consumer loans from us.

While there may be instances of abuse from other types of lenders, we are unaware of any complaints that have been made by members against their credit unions. Because our members are in the travel industry, it is very convenient for them to execute and receive various loan documents and disclosures up front. In the event that they do apply for an advance, we are then able to deposit the loan proceeds directly into their account at our credit union, mail or wire the proceeds to them. It is not necessary for us to send them any other type of disclosures before the loan proceeds are disbursed.

Changes to multi-featured open-end lending plans, would increase expenses to all credit unions that participate in this type of lending. Expenses would be incurred for new forms, system changes and training to all loan officers. These expenses could be significant and time-consuming. Since credit unions are not-for-profit financial institutions, costs would eventually be passed on to our members in the form of higher loan rates and/or lower dividends. Additionally, as not-for-profit institutions, we strive to give our members low loan rates. If our members had to receive additional disclosures before loan proceeds were disbursed, this has the potential of putting our members in the hands of lenders who typically charge much higher loan rates.

The changes in the office staff commentary seem to imply that the Board believes that closed-end disclosures are more superior to open-end disclosures. We respectfully disagree as can be seen in the subprime mortgage lending debacle where numerous disclosures are given. For members who have open-end loans with us, we already send them monthly periodic statements which provides them with very helpful information such as the payment made, balance owed, the APR, year to date finance charges, fees charged and due date.

In the event the Board believes that the official staff commentary must be changed somewhat, we strongly encourage the Board to instead consider requiring additional disclosures where the advance is not self-replenishing and to keep the current staff commentary intact.

By not requiring that these subaccounts be self-replenishing and allowing lenders to underwrite each advance, credit unions would still be able to serve their members in an economical, convenient manner, that is not burdensome to the credit union industry and which is currently very beneficial to our members.

Additionally, because any changes to multi-featured, open-end credit plans as proposed would be drastic to credit unions, we respectfully request that the effective date of any changes be postponed until the Board has reviewed Regulation Z in its entirety. Since the Board is anticipating making changes to closed-end lending under Regulation Z, we are very concerned that for us and other financial institutions who currently offer multi-featured open-end plans, that we would be forced to make time-consuming and expensive changes to adopt

the current Proposal. Then once we have the changes in place, we would be forced to again make drastic modification to our lending process in only a few years to be in compliance with any new closed-end lending changes. By delaying the implementation date, credit unions and other financial institutions who offer multi-featured, open-end credit plans would then be able to make all changes in one full swoop and would not incur excessive costs.

Effective APR

The Proposal would require that the name of the current "effective or historical" APR be changed and included on the periodic statement as the "fee-inclusive" APR. We believe that to again include this APR would be a mistake as it would continue to generate confusion among our members.

Our members become very confused when they know that their rate for purchases is only 13% for example, but yet they see a much higher number on their statement in the current "effective" APR section. Additionally, the fact that this "effective" APR may change monthly just makes it more confusing to members. With all of the new required information that will be given to consumers on their statement i.e., breakdown and grouping of fees, interest charged on purchases and cash advances plus the year-to-date totals that are also required to be disclosed, it is not necessary to give the "fee-inclusive" APR figure.

Giving the "fee-inclusive" APR figure will continue to confuse members and will continue to generate more telephone calls to all credit card issuers where we will have to reassure consumers that their APR did not increase. This would just add to the calls that we expect to also receive when we are required to give the minimum payment warning.

Due to the extensive changes that are being proposed in Regulation Z, we believe that financial institutions should have a minimum of at least two years to comply with any final regulation. This will give financial institutions sufficient time to update the credit card disclosures, periodic statements, open end lending disclosures, make various data processing changes, provide updated staff training and work with the various third party vendors who provide some of these services to us.

Thank you for all of your diligent efforts on this Proposal. We appreciate the opportunity to comment on this matter. If you have any questions, please call me at 817-931-7004.

Sincerely,

Faith L. Anderson

Faith L. Anderson
Vice President & General Counsel

cc: J.M. Tippets
CUNA
NAFCU