

From: "Nicolas Holguin" <nholguin@teachers.coop> on 10/12/2007 04:05:01 PM

Subject: Truth in Lending

October 11, 2007

Mrs. Jennifer J. Johnson
Secretary, Board of Governors of
The Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

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

Dear Ms. Johnson,

El Paso Area Teachers Federal Credit Union appreciates the opportunity to comment on the proposed changes to Regulation Z.

El Paso Area Teachers Federal Credit Union is a \$326 million credit union serving over 60 thousand members through seven branches in the counties of Culberson, Hudspeth and El Paso in the West Texas area.

It is extremely important that any implementation changes to Regulation Z take into consideration the significant difference between open-end revolving credit and open-end master agreements commonly used by credit unions where every subsequent advance is accompanied by new disclosures, including the applicable "APR".

We understand that there have been serious abuses by credit 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 any comments that addressed the need to change any 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.

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 an open-end "master loan" agreement that cannot be changed at will by the lender. For El Paso Area Teachers Federal Credit Union, all loan advances made under an open-end loan agreement are fixed-rate fully

amortizing advances. These advances are in fact, exactly like closed end loans under a master loan agreement.

This offers consumers all of the convenience of open-end credit with all of the financial protections of closed-end credit. This is beneficial for the consumer because the lender cannot change the terms.

Open-end lending contracts with subsequent fixed-rate fixed-terms 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 that may be either secured or unsecured advances.

Under presently regulated open-end loan agreements, disclosures of the APY and 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 interest rates, the terms in months and the payment amount. Nothing is hidden.

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 the risk associated with a new loan or determine an appropriate amount of the loan. Lenders would also lose the opportunity to calculate a debt to income ratio in order to determine if a member is overextended and to 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 obtain 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 a maximum loan amount.

Credit unions use open-end lending to meet the convenience 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.

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

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, which would make it impossible for them to visit a branch office and requiring the mailing or faxing of paperwork would delay the transaction.

Members desire the convenience that open-end lending affords. They have become accustomed to obtaining loan advances from their credit union in a quick and convenient manner.

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

I do not believe that this is the outcome 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.

The same as the Board of Governors of the Federal Reserve System, credit unions want the amendment to stop credit card abuse, but we strongly urge the board to not adversely impact open-end master loan agreements.

Sincerely,

Nick Holguin

Risk Management Officer,
El Paso Area Teachers Federal Credit Union.