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CUNA MUTUAL GROUP
CUNA Mutual Insurance Society

VIA ELECTRONIC MAIL

December 23, 2009

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

RE: Regulation Z: Docket No. R-1366

Dear Ms. Johnson:

Thank you for the opportunity to submit comments on behalf of CUNA Mutual Group and our credit union customers. We recognize and appreciate the Board's extensive efforts to provide a thoughtful and comprehensive approach to closed-end home secured transactions.

CUNA Mutual Group provides a broad range of insurance and related financial services to credit unions and their members within the United States and internationally. Under the trademark of LOANLINER®, CUNA Mutual supplies consumer, credit card, real estate and home equity lending documents to almost 6500 credit unions. In addition, approximately 90% of all credit unions are covered by an insurance product sold by CUNA Mutual to protect credit unions for loss due to inadvertent non-compliance with federal consumer disclosure laws including the Truth in Lending Act (TILA). Our comments are based on our extensive knowledge and experience working as recognized compliance experts within the credit union system.

1) Change in Regulatory Scheme

The regulatory scheme for closed-end loan transactions has been in place in its current form since 1980. That scheme had a well delineated approach of including certain items in the finance charge and thus into the APR. Such an approach allowed consumers to be able to shop for credit, knowing that the APR was their best method of comparing one loan to another. The scheme recognized some items in loan transactions are voluntary and not imposed by the lender, and thus, not a cost of credit. The proposed scheme includes almost all expenses any way associated with a loan transaction in the APR calculation, thus "artificially" inflating the APR beyond what is the true cost imposed on a consumer to borrow money. This approach, entirely contrary to former disclosure requirements is unnecessarily confusing for borrowers and lenders alike.

Further, credit unions have spent a great deal of time and money to create tools for preparation of documents that comply with the Truth-in-Lending Act and Regulation Z. Included in those processes and tools are calculation tools and systems for creating correct APR's. The proposal as written will make those tools obsolete and require significant expense and time spent by credit unions to create new systems and tools to comply with the proposed scheme.

We would urge the staff to rethink such a radical approach to the closed-end disclosure scheme. If certain types of charges or practices have caused disclosure concerns for consumers and lenders, the staff should look at those individual items for regulation.

2) Usury Concerns

The new approach may trigger state usury laws that determine usury limits based on TIL disclosures. The unintended consequences of the proposed change to the regulatory scheme could be a flood of lawsuits regarding usury violations that have never even approached the usury limits for states in the past. Thus, a transaction that was well within any state usury limit would become subject to state usury laws merely due to a change in the APR calculation method proposed.

3) Inclusion of Credit Insurance and Debt Cancellation Premiums in the APR

The FRB's proposal (to Section 226.4(g)) would include credit insurance premiums and debt cancellation fees in the finance charge for all closed-end transactions secured by real estate or a dwelling. The proposal violates the Truth in Lending Act 's (TILA) express language and fails to account for monthly outstanding balance products.

Voluntary credit insurance premiums and debt protection fees, by the provisions of the TILA, have been excluded from the finance charge. The purpose of TILA is contained in 15 U.S.C § 1601(a), which states: "It is the purpose of this subchapter to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit, and to protect the consumer against inaccurate and unfair credit billing and credit card practices."

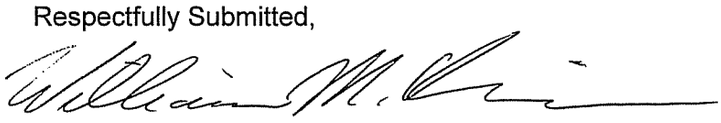
The inclusion of **voluntary credit insurance or debt cancellation fees** in the finance charge does not advance this purpose. Indeed, it expressly contradicts TILA's stated provisions. Section 1605(b) of TILA provides that charges for credit life, accident, or health insurance written in connection with any consumer credit transaction are specifically excluded from the finance charge if (1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and (2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof. We strongly encourage the FRB to exclude voluntarily purchased credit insurance premiums and debt cancellation fees from the finance charge.

We also strongly encourage the FRB to consider its treatment of credit insurance and debt cancellation calculated and paid on a monthly basis. Typically, monthly

outstanding balance (MOB) products are monthly renewal term products, meaning that they have a term of only one month and are renewable each month as long as the borrower pays the premium or fee. We suggest that the proposed rules specifically exclude all credit insurance premiums and debt cancellation fees calculated and paid on a monthly basis. Finally, we note that the current proposal for Regulation Z contains no guidance on whether only the first month of MOB premium must be included in the finance charge or whether the premium for the entire term of the loan must be included.

Thank you for this opportunity to comment on this proposal. We welcome the opportunity to visit further with the Board about suggestions included in this letter. Questions about our comments may be directed to William M. Klewin, Associate General Counsel, at 608-231-7009.

Respectfully Submitted,



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