

December 22, 2010

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

RE: Regulation R-1367 (Proposed Rule on HELOCs)

Dear Ms. Johnson:

SchoolsFirst Federal Credit Union serves school employees in Southern California we have more than 400,000 Members and over \$8 billion in assets. SchoolsFirst FCU is pleased to have the opportunity to comment on the proposed rule amending Regulation Z as it relates to home equity lines of credit (HELOCs).

The Board's proposal would change the format, timing, and content requirements for four types of HELOC disclosures required by Regulation Z: 1) application disclosures; 2) account-opening disclosures; 3) periodic statement disclosures; and 4) change-in-terms notices. The proposed rule also contains other measures relating to account termination, suspension of advances and credit limit reductions, and reinstatement of accounts that have been suspended or which limit has been reduced. We would like to take this opportunity to comment on several of these proposed changes.

Disclosures at Application

While we generally agree with the proposal to replace existing application disclosure requirement with the one-page question and answer summary document, we would respectfully request that lenders be permitted to make specific modifications to a question in situations where such a modification would provide a more definite answer. For example, since federal credit unions are not allowed to charge pre-payment penalties, they should be able to clarify this in the answer to the proposed question pertaining to pre-payment fees.

Disclosures Three Days after Application

We respectfully request that the Board adopt the "general" definition of "business day" found in Section 226.2 of Regulation Z for purposes of the three-day disclosure window. Under this definition, a business day is defined as a day on which the lender's offices are open to the public for carrying on substantially all of its business functions. In comparison, the "more precise" definition contemplates a business day as any day except Sundays and holidays.

Since most credit unions do not conduct underwriting of loans on Saturdays, the adoption of the "more precise" business day definition could potentially result in the three-day window in which the borrower would need to be provided with transaction-specific disclosures to two days in certain situations. Given the binding nature of the information required to be provided on the Good Faith Estimate, this reduced underwriting time will likely be insufficient to provide accurate information to the borrower.

Change-in-Terms Notification

The proposed rule would increase the notice that a consumer must receive prior to a change-in-terms on a HELOC taking effect from 15 days to 45 days. We strongly oppose this piece of the proposal.

While we fully comprehend the Board's interest in ensuring that consumers receive adequate time to make financial decisions based on a change-in-terms of their HELOC, we believe that the requirement of a 45-day notice is far too long for lenders to accommodate the interest rate risks that exist due to fluctuations in the credit markets. The adoption of this change will inevitably lead to lenders pricing this increased risk, to the detriment of borrowers.

We believe the preferable approach to be one in which the required notice is no longer than the billing cycle of the HELOC account, which is typically 30 days. Although the Board has previously imposed the 45-day period for credit card accounts, we are of the opinion that changes in terms are more narrowly restricted for HELOCs by Regulation Z and thus, the impact on consumers of HELOC changes would likely be less severe than for credit card accounts.

Account Terminations

The proposal would permit a creditor to terminate a borrower's HELOC account for payment-related reasons only after the borrower has failed to make the minimum payment for at least 30 days after the payment due date.

While we generally support this portion of the proposed rule, we believe that the Board should clarify that this proposal only impacts a creditor's ability to terminate a HELOC for payment-related reasons. In other words, a creditor should continue to be permitted to terminate a HELOC where the creditor's security interest in the property is adversely affected by the borrower's action or inaction.

Account Suspensions

We support the Board's proposal to create "safe harbors" which lenders could use to determine whether a decline in value is sufficiently "significant" so as to permit account suspension.

However, we would request that the Board allow lenders to consider clear and consistent trends of declining property values in the market area in which the securing property is situated as an additional factor to consider as to whether a significant decline has occurred. This could involve the use of market surveys, automated valuation models, and other such criteria.

We would also respectfully request that the Board adopt a broader interpretation of the "material change in financial circumstances" criteria which creditors are allowed to consider in suspending a HELOC, to include situations in which a consumer is more than 30 days delinquent on third party liabilities. It is our opinion that such delinquency typically results in a consumer's likelihood of default "substantially increasing" within the meaning of Regulation Z.

This also goes hand-in-hand with the "unable to pay standard" in the regulation which defines "material change in financial circumstances" as a situation where a borrower moves into a higher default risk category than at origination, such that the creditor would not have made the loan or would have made the loan on materially less favorable terms and conditions.

SchoolsFirst Federal Credit Union appreciated this opportunity to comment on the proposed rule affecting home equity lines of credit.

Sincerely,

Rudy Hanley
President/CEO
SchoolsFirst Federal Credit Union

cc: Credit Union National Association (CUNA)
 California/Nevada Credit Union League (CCUL)