



October 12, 2007

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Docket No. R-1286

Dear Ms. Johnson:

The Conference of State Bank Supervisors (CSBS) commends the effort by the Board of Governors of the Federal Reserve System (Board) with respect to its proposed amendments to Regulation Z (Amendments).

The Board recognized the two purposes of the Truth in Lending Act (TILA) are: (1) to provide meaningful disclosure of credit terms to enable consumers to compare credit terms available in the marketplace more readily and avoid the uninformed use of credit; and (2) to protect against inaccurate and unfair billing and credit card practices. In general, CSBS believes the Amendments represent substantial improvements to the existing disclosures in Regulation Z and will enhance consumer awareness of the terms of a credit card account. For example, requiring the disclosure of key terms in a summary table at account opening and increasing the advance notice for changes in terms from 15 to 45 days may alert consumers to those events that could substantially increase their expense or alter their original understanding of an account. These types of disclosures clearly advance the first purpose of TILA.

However, to fully address the second purpose of TILA (*i.e.*, to protect against unfair credit card practices), the Board should consider additional action. For example, while the Amendments require creditors to provide 45 days' prior notice before increasing a rate due to the consumer's default, the Board may wish to go further and implement a definition of "default." Such a definition could be directed at preventing the practice of "universal default." As the Board is aware, both the Congress and consumers have complained about the perceived unfairness of "universal default"—which allows a creditor to consider the consumer's delinquency with respect to unrelated debt as default under the credit card account. The creditor will often increase the consumer's interest rate even though the consumer has remained in compliance with that credit card account.

Moreover, the proposal seeks solicitations on two approaches for disclosing the effective APR. CSBS strongly supports the first approach of improving consumer understanding of the rate. Consumers will benefit from knowing how much they pay in interest as well as fees, and the disclosure will enable them to use the effective APR as a useful tool when comparing rates. Education combined with the disclosure will go a long way in improving

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the financial literacy of many consumers. Additionally, CSBS believes the Board should require that creditors disclose an actual, not hypothetical, example of how long it would take a consumer to pay off a loan if they paid only the minimum amount required. The creditor already has easy access to this information. Therefore, providing a real example, specifically tailored to each individual borrower, is not a significant burden.

Also, while the Amendments substantially lengthen the time period for a change in terms notice, the Board may wish to offer a proposal that would allow consumers to avoid the effects of certain types of changed terms. For example, a change in terms notice often alerts the consumer to an increase in the interest rate. The increased rate generally applies to all existing and future debt on an account. Taking into account the consumer had incurred the existing debt under a specific rate to which the consumer had already agreed, the Board may consider offering the consumer an option of either “opting out” of a rate increase as it relates to preexisting debt (with the understanding by the consumer that the account must be closed), or continuing with the account and allowing the increased rate to be applied to both preexisting and future debt.

We understand the Board has begun a review of disclosures relating to home secured credit. CSBS urges the Board to move with all deliberate speed to complete this review. As stated above, CSBS believes that the Amendments represent a substantial improvement with respect to enhancing consumer awareness of account terms for open-end credit that is not home secured, and similar improvements are needed for home secured credit.

Improving consumer disclosures is a worthy undertaking. However, disclosures alone can not provide a panacea to the problems in the consumer credit market. All too often, it seems, disclosures are used to provide safe harbor for unscrupulous creditors and fail to protect consumers. The Board must make it clear that there will be no safe harbor if the transaction involves any deceptive advertising or other unfair sales and marketing practices. Further, CSBS urges the Board to utilize its rulemaking authority to define unfair or deceptive acts or practices in an effort to improve consumer protections.

Thank you for the opportunity to submit a formal response on behalf of state bank regulators.

Best Personal Regards,

A handwritten signature in black ink, appearing to read "Neil Milner". The signature is written in a cursive, flowing style.

Neil Milner
President and CEO