



STATEMENT

OF

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CHAIRMAN  
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“REGULATION Z AND CREDIT CARD DISCLOSURE REVISIONS”

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND  
CONSUMER CREDIT  
U.S. HOUSE OF REPRESENTATIVES

THURSDAY, JUNE 7, 2007

## I. Introduction

The National Credit Union Administration's (NCUA) primary mission is to ensure safety and soundness, as well as compliance with applicable federal regulations for federally insured credit unions. It performs this important public function by examining all federal credit unions, participating in the supervision of federally insured state-chartered credit unions in coordination with state regulators, and insuring credit union member accounts. In its statutory role as the administrator for the National Credit Union Share Insurance Fund, NCUA provides oversight and supervision to approximately 8,305 federally insured credit unions, representing 98 percent of all credit unions and approximately 86 million members.<sup>1</sup>

NCUA has enforcement authority for Regulation Z in all federally chartered credit unions. In addition to the provisions of the Truth In Lending Act (TILA) and Regulation Z, federal credit unions are subject to further requirements in the Federal Credit Union Act and NCUA's Rules and Regulations. NCUA evaluates federal credit union compliance with these requirements through its examination and supervision process.

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<sup>1</sup> Approximately 174 state chartered credit unions are privately insured and are not subject to NCUA oversight.

## **Credit Unions and Regulation Z**

The TILA encourages the informed use of credit by consumers. It promotes meaningful disclosure of credit terms to enable consumers to compare credit terms and also protects consumers against inaccurate and unfair credit billing and credit card practices.<sup>2</sup>

The Federal Reserve Board's (FRB) Regulation Z implements TILA.<sup>3</sup> Regulation Z applies to both federally-chartered and state-chartered credit unions. While NCUA is responsible for examining and enforcing federal credit union compliance with Regulation Z, the Federal Trade Commission has responsibility for its enforcement for state-chartered credit unions.<sup>4</sup>

NCUA is authorized to and has established its own examination procedures to enforce compliance with Regulation Z, using a risk-based examination and supervision approach.<sup>5</sup> NCUA can require a federal credit union to adjust a borrower's account to correct errors resulting from an inaccurately disclosed annual percentage rate or finance charge. NCUA also can exercise the cease and desist authority it has under the Federal Credit Union Act to correct an unsafe or unsound business practice or a violation of applicable

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<sup>2</sup> 15 U.S.C. § 1601.

<sup>3</sup> 12 C.F.R. § 226.

<sup>4</sup> Consumer Credit Protection Act, § 108(c) of title I.

<sup>5</sup> See *infra* page \_\_\_.

laws and regulations.<sup>6</sup> If a credit union fails to comply with the requirements of a cease and desist order, civil money penalties may be assessed.

In addition to its examination and enforcement authority, NCUA alerts federal credit unions of FRB changes to Regulation Z, informs federal credit unions of operational matters for their consideration related to the regulation, responds to inquiries from federal credit unions, responds to complaints from credit union members, and consults with the legal staff of the FRB regarding Regulation Z matters. NCUA uses Regulatory Alerts, Letters to Credit Unions, and Legal Opinion Letters to assist federal credit unions, and where appropriate, federally-insured state-chartered credit unions, in remaining informed of their responsibilities under the regulation and in promoting safe and sound business operations.

Regulatory alerts are used to communicate information about regulatory changes by other federal agencies to federal credit unions. NCUA has issued several regulatory alerts to federal credit unions concerning FRB revisions and amendments to Regulation Z.<sup>7</sup> Letters to Credit Unions are used to relay guidance and instruction arising from NCUA's internal experience and observation to federal credit unions and, where appropriate, federally-insured

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<sup>6</sup> 12 U.S.C. § 1786(b),(e).

<sup>7</sup> Revised Regulation Z Commentary (97-RA-7), Revisions to Regulation Z (98-RA-1), Interagency guidance on Electronic Financial services and Consumer Compliance (98-RA-4), Regulation Z Truth in Lending (01-RA-01), Interim Final Rules Amending Regulations B, E, M, Z and DD – Electronic Delivery of Required Disclosures (01-RA-08), Amendment in Lending to Regulation Z Truth in Lending (01-RA-15), Regulation Z Implementation of Home Ownership and Equity Protection Act, and Regulation Z – Revisions to the Official Staff Commentary (03-RA-08).

state-chartered credit unions. Since 1977, NCUA has provided credit unions with letters discussing various Truth-in-Lending matters, for example, disclosures concerning payroll deduction plans,<sup>8</sup> interest rate adjustment errors for Adjustable Rate Mortgage loans,<sup>9</sup> and compliance and other risks in home equity lending.<sup>10</sup> NCUA has not issued any Letters to Credit Unions concerning credit card activities recently as the agency's examination data and complaint data have not indicated any systemic or pervasive problems in this area.<sup>11</sup> Legal Opinion Letters are used to clarify and discuss the application of existing regulatory requirements to specific scenarios, and, when responding to questions concerning Regulation Z, NCUA consults with legal staff at the FRB. NCUA has addressed a number of Regulation Z topics in this manner, such as, whether a particular fee is a finance charge<sup>12</sup> and risk-based pricing disclosures.<sup>13</sup>

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<sup>8</sup> Truth-In-Lending Disclosures – Payroll Deduction Plan 2 (Letter to Credit Unions No. 16, 11/18/77, inactive).

<sup>9</sup> Interest Rate Adjustment Errors for ARM Loan (Letter to Credit Unions No. 120, 01/00/91).

<sup>10</sup> Risks Associated with Home Equity Lending (05-CU-07, May 2005).

<sup>11</sup> See *infra* at page \_\_\_.

<sup>12</sup> For example, OGC Opinion Letter Nos. 91-0412 (Re: Late Charges), 00-1217 (Re: Interest Rate Limits and Transaction Fees on Credit Card Cash Advances), and 05-0903 (Re: Skip-A-Payment Disclosures).

<sup>13</sup> For example, OGC Opinion Letter Nos. 98-0141 (Re: Risk-Based Pricing Disclosure Notice) and 04-0325 (Re: Risk-Based Credit Card Accounts).

## II. Credit Card Programs In Federally Insured Credit Unions

### Federally Insured Credit Unions

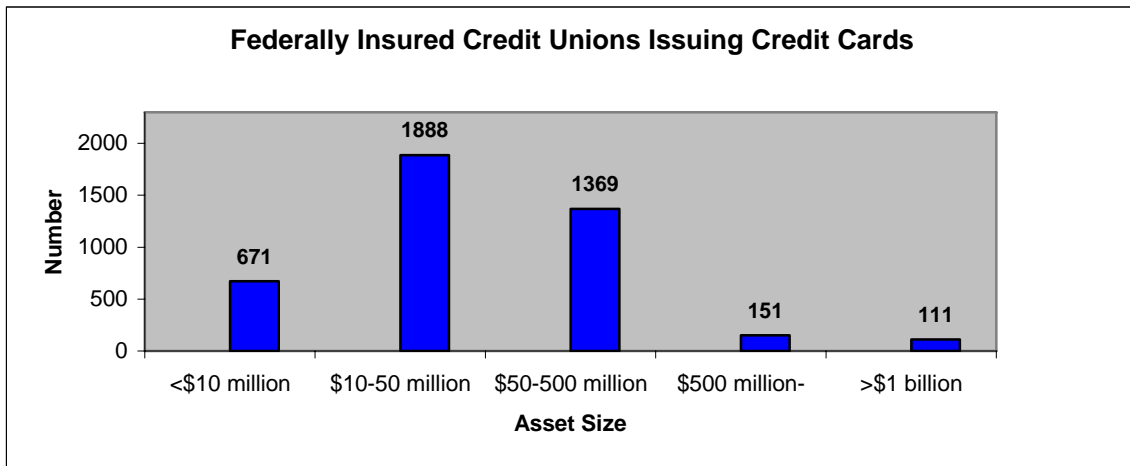
As of March 31, 2007, 50 percent of all federally insured credit unions (4,190) offer credit cards to their members. Federally insured credit unions represent a small portion of the credit card market with outstanding credit card balances totaling \$25.7 billion, or roughly 3 percent of the \$775 billion of outstanding credit card balances in the entire marketplace.<sup>14</sup> Federally insured credit unions represent 6 percent of the \$410.6 billion in outstanding credit card balances at all federally insured depository institutions.<sup>15</sup> Credit card loan growth in federally insured credit unions has averaged 4.28 percent over the last five years, with outstanding credit card balances representing 5 percent of their total loans outstanding. The average outstanding credit card balance reported by federally insured credit unions at the end of 2006 was \$2,117 per account, with an average reported interest rate of 11.38 percent. The most frequently reported interest rate was 9.9 percent.

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<sup>14</sup> Based on 12/31/2006 data supplied by Brookwood Capital, as referenced in the May 9<sup>th</sup> edition of the Credit Union Times magazine, Vol. 18, No. 19. 2007.

<sup>15</sup> NCUA data from 03/31/2007 5300 Call Report and *FDIC- Statistics on Depository Institutions Report, Net Loans and Leases for all depository insured institutions as of 12/31/2006*. 31 Dec. 2006. Federal Deposit Insurance Corporation. <<http://www2.fdic.gov/sdi/main.asp>>.

More than 60 percent of all federally insured credit unions issuing credit



Source: NCUA's 5300 Call Report as of 3/31/2007

cards to their members are institutions with assets of less than \$50 million.

These credit unions do not enjoy the same economies of scale as large issuers.

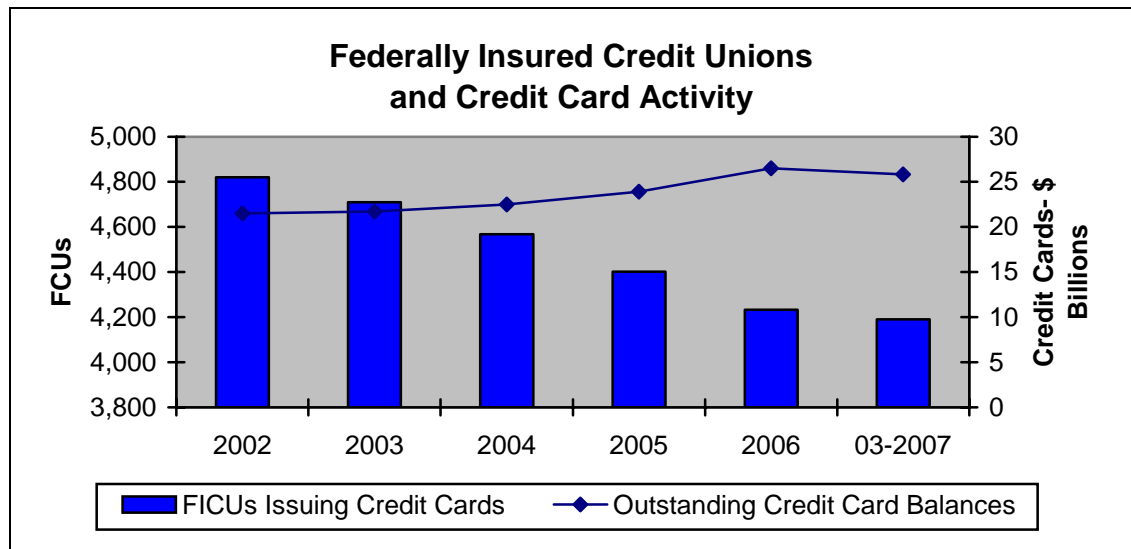
Federally insured credit unions often partner with other credit unions, credit union service organizations, card processors, or card issuers in order to reduce the significant operating expenses required for the processing and servicing of credit card programs.

As interest rates and credit union cost of funds for federally insured credit unions have risen, the net interest margin earned on all loan types has declined. Since all federal credit unions are prohibited from increasing their loan rates beyond a current regulatory 18 percent cap and market interest rates have increased, the interest margin available to cover the losses from higher risk borrowers has declined for many federally insured credit unions.<sup>16</sup> Rising

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<sup>16</sup> 12 U.S.C. §§1757(5)(A)(vii)

variable costs and fixed interest margin potential may have persuaded many federally insured credit unions to sell or discontinue



Source: NCUA's 5300 Call Report as of 3/31/2007

their credit card programs in recent years. Credit card portfolio brokers estimate 318 credit unions have sold their credit card portfolios totaling approximately \$2.2 billion in outstanding credit card balances over the last five years.<sup>17</sup> Through portfolio sales and consolidation, the number of federally insured credit unions issuing credit cards has declined by more than 13 percent since 2002.

### **Federal Preemption of State Law**

By comparison with other federal financial regulators, NCUA has narrowly exercised its authority under the U.S. Constitution and the Federal Credit Union Act to preempt state laws.<sup>18</sup> In brief, NCUA, by regulation, only preempts state

<sup>17</sup> Credit card portfolio sales data for credit unions with more than \$1 million in credit card balances outstanding. Brookwood Capital. Press release dated May 21, 2007. <<http://www.brookwoodcapital.net>>

<sup>18</sup> For example, NCUA has not asserted preemption of state law on behalf of or for the benefit of credit union service organizations (CUSOs). CUSOs are legal entities, generally organized as corporations under state law, in which federal credit unions can invest or to which they can lend if the CUSO is engaged in certain approved activities related to the routine operations of credit unions. 12 U.S.C. §§1757(5)(D), 1757(7); 12 C.F.R. §712.5. NCUA does not have direct jurisdiction; it is noted the recent case of *Watters*



laws affecting the rates, terms, and conditions of loans that federal credit unions can offer and state laws affecting fees for opening, maintaining or closing savings, checking, and certificate accounts.<sup>19</sup>

Federal preemption, for NCUA and other federal regulators, stems from the Supremacy Clause of the U.S. Constitution<sup>20</sup> that provides the laws of the United States shall be the supreme law of the land, notwithstanding any state laws to the contrary. Federal preemption can be express, as when it is set out in a statute, or implied, from an overall reading of a statute as to the congressional intent. NCUA's long-standing position is that the Federal Credit Union Act establishes express preemption of state law in the area of lending as far as rates, terms, and conditions.<sup>21</sup>

The practical benefit of federal preemption for federally chartered financial institutions, including credit unions, is that they generally can look to the law and

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*v. Wachovia, [ADD CITE]*, addressing preemption of state law for federal operating subsidiaries of banks, has no effect on NCUA's preemption position.

<sup>19</sup> 12 C.F.R. §§701.21(b), 701.35(c).

<sup>20</sup> , U.S. Constitution, Art. V, cl. 2

<sup>21</sup> The Federal Credit Union Act states:

A Federal credit union . . . shall have power—

. . . .

(5) to make loans, the maturities of which shall not exceed twelve years except as otherwise provided herein, and extend lines of credit to its members, to other credit unions, and to credit union organizations and to participate with other credit unions, credit union organizations, or financial organization in making loans to credit union members in accordance with the following:

(A) Loans to members shall be made in conformity with criteria established by the board of directors . . . .

12 U.S.C. §1757(5). The Federal Credit Union Act also expressly gives the board of directors of a federal credit union the authority to determine the rates of interest on loans, the security, maximum amount of loans and lines of credit, and, generally, the authority and responsibility to establish lending policies subject to NCUA regulation. 12 U.S.C. §1761b(8)(20).

regulations of their federal regulator to ensure compliance rather than dealing with a patchwork of state and local laws applicable to state-chartered financial institutions. Given that, federal credit unions, like other federally chartered financial institutions, may have branches in several states, the benefits include uniform compliance for all locations, thus reducing the regulatory burden of tracking compliance with the laws of various state and local jurisdictions.

NCUA's lending regulation specifically states NCUA does not preempt certain areas of state law, for example, insurance laws, laws relating to security interests in property, laws on collection costs and attorney fees. Particularly relevant to discussion of consumer disclosures and current issues being raised about credit card lending, NCUA's regulation specifically states NCUA does not preempt state laws that require consumer lending documents be in "plain language."<sup>22</sup>

While NCUA will generally not preempt state disclosure laws -- meaning, laws requiring the disclosure of certain information to consumers -- NCUA has preempted state law that, although cast as a disclosure law, is, in effect, a law controlling the rates, terms, and conditions of lending. For example, in 2002, NCUA's Office of General Counsel issued a legal opinion concluding that a California law dealing with credit card provisions was preempted.<sup>23</sup> Briefly summarized, the state law at issue required, among other things, particular

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<sup>22</sup> 12 C.F.R. §701.21(b)(2)(iii).

<sup>23</sup> OGC Legal Opinion 02-0638 (June 26, 2002)(available on agency website).

disclosures, counseling services, and toll-free numbers established to provide assistance, if the card holders were permitted to make a monthly payment of less than 10 percent of the balance due. In other words, the disclosure requirements were triggered depending on the repayment terms of the line of credit and, therefore, NCUA concluded the state law limited and affected the “terms of repayment, including . . . the amount, uniformity, and frequency of payments,” which is specifically preempted under NCUA’s regulation.<sup>24</sup>

Finally, it should be noted, because it is particularly pertinent to consumer issues in credit card transactions, that NCUA’s preemption regulation provides that, where federal law other than the Federal Credit Union Act primarily regulates aspects of credit transactions, NCUA will determine whether state law applies or is preempted under the preemption standards relevant to that federal law. For example, as Regulation Z is primarily a disclosure regulation, NCUA will consider the preemption standards of the FRB under Regulation Z in determining whether state law applies. In fact, when questions arise in this area, NCUA staff will routinely consult with FRB staff.

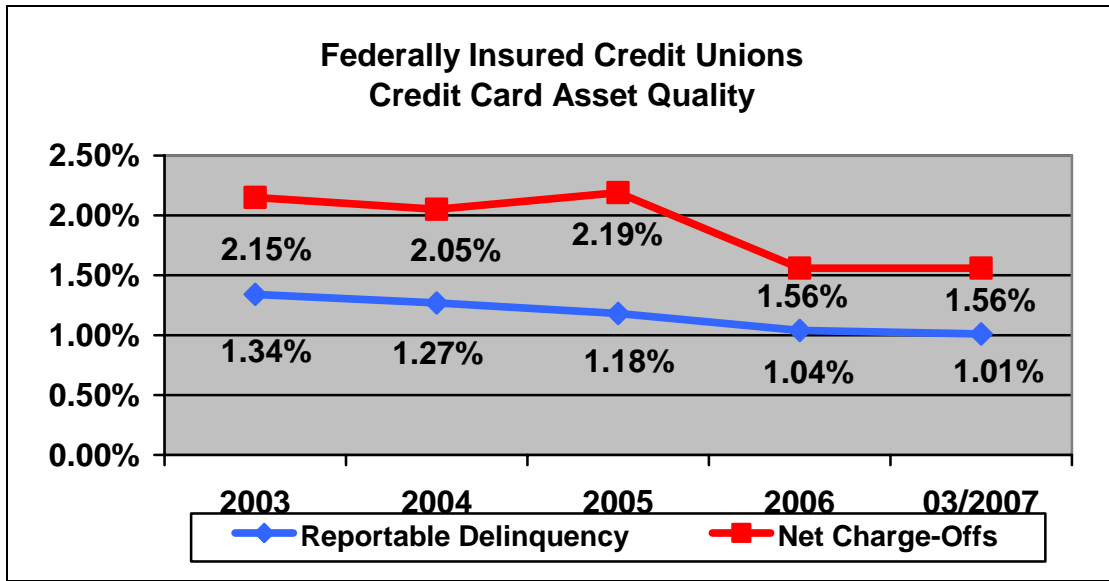
### **Credit Card Performance in Federally Insured Credit Unions**

Currently, credit card asset quality ratios indicate that credit card portfolios in federally insured credit unions are performing soundly. Reportable credit card delinquency, which NCUA defines as accounts sixty days or more past due, has

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<sup>24</sup> 12 C.F.R. §701.21.

been on the decline in federally insured credit unions for the last five years. Likewise, net charge-offs of credit card accounts have declined significantly. These asset quality ratios indicate federally insured credit unions are soundly underwriting credit card loans. At the end of 2006, federally insured credit union “past due” credit card rates (30 days or more past due) of 2.32 percent compared favorably to the “past due” credit card rate for other federally insured depositories of 3.98 percent.



Source: NCUA's 5300 Call Report as of 3/31/2007

One of the factors contributing to the enhanced asset quality of credit card loans in federally chartered credit unions may be the current 18 percent regulatory cap on interest rates for federal credit unions. Due to the interest rate cap, federal credit unions cannot charge high interest penalty or default rates, such as the 27 percent penalty rates being charged by some non-credit unions noted in the Government Accountability Office's September 2006 report on credit

cards.<sup>25</sup> This regulatory limitation on interest rates prevents federal credit unions from charging default or penalty interest rates, thereby protecting the consumer from higher rates. However, the interest rate ceiling also limits the ability of credit unions to mitigate the higher credit risk of some borrowers through risk-based pricing and may ultimately limit access to credit for some members.

As of March 2007, the average of the most common credit card interest rate being reported by all federally insured credit unions was 11.38 percent, with the most frequently reported interest rate being 9.9 percent. These average rates are lower than the national average of interest rates for standard and “gold” credit cards and variable rate “platinum” cards.<sup>26</sup> One recent study observed fewer complexities and more consumer friendly terms and conditions in the credit cards offered by the ten largest credit union credit card issuers versus other large credit card issuers.<sup>27</sup> Lower than average rates and fees are an indication that credit unions serve their purpose in providing a member-oriented approach to credit card underwriting.

### **Statutory Limit on Interest Rates**

Federal credit unions are subject to a regulatory framework containing significant consumer protections for lending transactions. In addition to

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<sup>25</sup> Government Accountability Office, “Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers,” September 2006. GAO-06-929.

<sup>26</sup> Bankrate.com©, “Credit Cards-National Averages,” Bankrate, Inc.©, May 17, 2007.  
<[http://www.bankrate.com/brm/publ/cc\\_top\\_ten\\_mkt.asp](http://www.bankrate.com/brm/publ/cc_top_ten_mkt.asp)>

<sup>27</sup> Tim Westrich and Malcolm Bush. “Blindfolded Into Debt: A Comparison of Costs and Conditions at Banks and Credit Unions,” Woodstock Institute, July 2005.  
<[http://www.woodstockinst.org/publications/research\\_reports](http://www.woodstockinst.org/publications/research_reports)>

Regulation Z, federal credit unions must comply with lending requirements established in the Federal Credit Union Act and NCUA's lending regulations.<sup>28</sup>

The Federal Credit Union Act limits the interest rate on all lending by federal credit unions to 15 percent unless the NCUA Board acts to set a different rate.<sup>29</sup> By statute, if the Board sets a higher permissible interest rate, the rate remains in effect for only an 18-month period; the rate reverts to 15 percent unless the Board again reviews it and determines whether to set a different rate. Currently, the interest rate cap is 18 percent, a rate the NCUA Board has maintained since May 1987. The interest rate cap is applied to the unpaid loan balance and includes all finance charges, in effect, providing a ceiling on the effective interest rate charged at any time on a loan.

NCUA's long standing policy is to include any credit fees as finance charges in determining the interest rate cap if those fees would be deemed finance charges under the FRB's Regulation Z.<sup>30</sup> NCUA, in addition to relying on Regulation Z, has consulted with legal staff of the FRB for guidance on what constitutes a finance charge. Because finance charges are a component of the interest rate cap, fees can be charged only if the resulting effective interest rate does not exceed the cap. As a result, fees commonly applied by other card issuers, for example balance transfer and cash advance fees, generally cannot

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<sup>28</sup> 12 U.S.C. § 1757(5)(A)(vi), 12 C.F.R. §§ 701.21, 701.22, 706, 722, and 723.

<sup>29</sup> 12 U.S.C. § 1757(5)(A)(vi).

<sup>30</sup> 12 C.F.R. § 226.4(b).

be imposed by federal credit unions because including these fees will mean the interest rate will exceed the permissible cap.

In addition to the interest rate cap, NCUA's regulations also impose restrictions on so-called "pyramiding." The agency prohibits federal credit unions from "pyramiding" late fees.<sup>31</sup> Pyramiding refers to a situation where a late fee is imposed on a timely payment simply because an outstanding late fee, from an earlier payment period, exists. Under NCUA's regulation, as long as the payment due for the current period is paid in full and on time, a federal credit union may not impose a late fee for the current period. Essentially, NCUA's regulation prevents charging a late fee on a late fee.

### **III. NCUA's Role in Enforcement and Complaint Resolution**

NCUA plays a significant role in enforcing Regulation Z in federal credit unions. Through its examination program and complaint monitoring process, NCUA helps to ensure credit unions are compliant and consumers are appropriately protected by applicable federal regulations.

#### **NCUA Oversight and Enforcement**

NCUA performs risk-focused examinations and supervision as a part of its statutory enforcement and oversight responsibilities. Compliance is one of the seven risk areas upon which NCUA's risk-focused examination program is

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<sup>31</sup> 12 C.F.R. § 706.4.

built.<sup>32</sup> In risk-focused examinations, examiners assign a level of risk (high, medium, low) for each of the seven risk areas and then develop a scope for each examination or supervision contact based upon a credit union's individual risk factors.

Examiners utilize NCUA's Automated Integrated Regulatory Examination Software (AIRES), which uses questionnaires to guide and document reviews.<sup>33</sup> NCUA examiners provide basic compliance oversight for the federal credit unions in their district, reviewing compliance areas that indicate levels of risk. Within the AIRES application, examiners have access to questionnaires for each compliance regulation for which NCUA has enforcement authority. These questionnaires provide the following key components on each regulation:

- Summary of the basic purpose or applicability of the law/regulation;
- NCUA's enforcement responsibility;
- Penalties resulting from failure to comply;
- Record retention requirements, if any; and
- Key questions for consideration during the review and general information to assist the examiner.

When violations are noted, examiners document them in NCUA's centralized Compliance Regulations Violations database. Additionally,

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<sup>32</sup> NCUA's risk-focused examination program focuses on the following seven risk areas: Interest Rate, Liquidity, Credit, Strategic, Compliance, Transaction, and Reputation Risks. See NCUA Letter to Federal Credit Unions 02-FCU-09, *Risk-Focused Examination Program*.

<sup>33</sup> The AIRES questionnaire workbook is available at <http://www.ncua.gov/CreditUnionResources/aires/aires.html>



examiners develop and communicate recommended corrective actions to credit union personnel and/or credit union officials, develop and recommend corrective solutions to be included in the examination report, and reach agreements on appropriate corrective action.

During the 7,899 examination and supervision contacts completed in federal credit unions during 2006, NCUA noted 305 violations of Regulation Z. Of the violations noted, 147 were addressed through Documents of Resolution, 108 were addressed through Examiner's Findings, and the remaining 50 were addressed through other informal actions.<sup>34</sup> Only 17 of the violations noted were specific to credit cards. Few formal enforcement actions related to Regulation Z have been necessary in federally insured credit unions.

### **Consumer Complaint Resolution**

NCUA central and regional offices have systems to track incoming complaints and responses. Each of the five NCUA regional offices has staff who review and evaluate any consumer complaints. Federal credit unions also have Supervisory Committees comprised of credit union members whose primary duties include oversight of internal audit functions and ensuring credit union member assets are safeguarded.

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<sup>34</sup> NCUA examiners use the Examiner's Findings workpaper, as part of an examination or supervision report, to list material operating exceptions, violations of law or regulation, and unsafe and unsound policies, practices, and procedures. NCUA examiners use Documents of Resolution, a separate section in an examination or supervision report, to outline plans and agreements reached with the officials to reduce areas of unacceptable risk. Failure to resolve Documents of Resolution will lead to NCUA taking progressive enforcement action.

Depending on the nature of a complaint, incoming complaints are investigated and the credit union is requested to provide an explanation of the circumstances. Regional staff encourage the resolution of the matter voluntarily, but are authorized and prepared to invoke the agency's administrative action authority, if necessary, to achieve a proper outcome. Regional Directors are responsible for making determinations about necessary action on a case-by-case basis and coordinating responses with the central office.<sup>35</sup>

Review of regional complaint logs since 2004 show relatively few complaints specifically related to credit card practices or Regulation Z. A total of 306 complaints related to these topics were logged with regional offices during this time period, with 80 specifically pertaining to credit card issues. In most instances, complaints about credit cards focused on misunderstandings of loan terms, authorization and account status issues, and payment disputes. Regional staff normally resolves complaints by providing additional information to the complainant or arranging direct follow-up by NCUA examiner staff.

### **NCUA Promotion of Financial Education**

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<sup>35</sup> NCUA Instruction No. 12400.05, dated April 23, 2004

Credit unions have demonstrated that they view financial education as a natural outgrowth of their service-oriented philosophy. Increased financial literacy represents an ounce of prevention that can help all consumers avoid getting in over their heads, and actually enable them to use their money wisely and improve their financial health. The advertising slogan "an educated consumer is our best customer" is very apt when discussing the value of financial literacy.

NCUA is a member of the Financial Literacy and Education Commission (the Commission), a federal entity established under the Financial Literacy and Education Improvement Act, enacted by Title V of the Fair and Accurate Credit Transactions Act of 2003, to improve financial literacy and education of persons in the United States.

The principal duties of the Commission include: (1) encouraging government and private sector efforts to promote financial literacy; (2) coordinating financial education efforts of the federal government, including the identification and promotion of best practices; (3) the development of a national strategy to promote financial literacy and education among all American consumers; (4) the establishment of a website to serve as a clearinghouse and provide a coordinated point of entry for information about federal financial literacy and education programs, grants, and other information; and (5) the establishment of a toll-free hotline available to members of the public seeking information about issues pertaining to financial literacy and education.

In addition to serving as a member of the Commission, NCUA Chairman Johnson has served as Chairman of its MyMoney.gov website subcommittee since October 2006. The MyMoney.gov web site was created to provide public access to financial education tools and resources, which will empower Americans to save, invest and manage money wisely to meet personal goals. In this role, the Chairman coordinates the efforts of twenty federal agencies to improve financial education across the nation.

The Access Across America initiative, announced in February 2002, incorporated the Agency's activities for federally insured credit unions expanding services into underserved areas. The program has been designed to partner with federal government agencies and other organizations to identify and facilitate the use of resources available for federally insured credit unions to assist in their efforts to serve individuals in underserved areas.

Another program NCUA developed to help consumers and improve financial literacy is the Community Development Revolving Loan Fund (CDRLF). The CDRLF awards grants and loans to low-income designated credit unions to enable them to provide financial services to their communities, including financial education. Financial education programs often include topics such as, understanding credit, understanding finance charges, managing personal credit, credit awareness and budgeting.

In 2004, NCUA created a Financial Education grant initiative to provide members with practical money management skills. Since 2004, NCUA has awarded \$461,885 in technical assistance grants to credit unions for financial education and related purposes.

### **Proposed Amendments to Regulation Z**

The FRB is in the midst of an extensive review of Regulation Z to determine where revisions to the regulation are necessary. The first phase of its review covers open-end credit with its initial efforts directed towards lines of credit that are not secured by a home, for example, general purpose credit cards. As a part of this review, the FRB recently issued proposed amendments to the open-end credit provisions of Regulation Z.<sup>36</sup> NCUA staff attended the open meeting where the major changes in the proposal were discussed. While NCUA staff is currently reviewing the considerable documentation accompanying the rulemaking, NCUA would like to take this opportunity to provide an initial comment on the proposed rule.

NCUA generally supports the FRB's attempt to provide information to consumers in a consistent, easily readable manner. The changes should aid consumers in identifying rates and understanding important conditions related to their use of the credit product, facilitate comparisons of credit products, and

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<sup>36</sup> 72 Fed. Reg. \_\_\_\_\_ ( , 2007)

promote responsible use of credit products. The changes also appear to provide lenders with more direction on their responsibilities under the regulation.

The FRB issued two Advanced Notices of Proposed Rulemakings<sup>37</sup> to receive comment on the effectiveness of its existing rules and conducted intensive consumer testing to determine if its proposed changes produced useful disclosures for consumers. The findings suggested changes are necessary concerning the content and display of information in the Schumer box,<sup>38</sup> periodic statements, solicitation letters, account-opening disclosures, and change-in-terms notices. The FRB also proposed changes to areas causing confusion and compliance burdens to lenders, for example, distinctions between finance charges and other charges, timing and content of fee disclosures, and required use of certain terminology. NCUA will be looking closely at all of the proposed changes in the coming weeks to evaluate the potential impact on federal credit unions and their members.

#### **IV. Conclusion**

As member owned and controlled financial institutions, federally insured credit unions offer products and services for the benefit of their members.

Although federally insured credit unions represent a small portion of the credit card market, NCUA's view is that the credit card services are being provided to

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<sup>37</sup> 69 Fed. Reg. 70925 (December 8, 2004); 70 Fed. Reg. 60235 (October 17, 2005)

<sup>38</sup> Common name for the table of abbreviated disclosures required for credit card applications and solicitations under § 226.5a of Regulation Z.

their members in a sound and beneficial manner. The disclosure requirements of Regulation Z correspond closely with the credit union mission of member service and NCUA evaluates federal credit union compliance with those requirements. Through its examination and supervision process, complaint monitoring, and consumer education initiatives, NCUA works to ensure compliance with all applicable federal laws. As the FRB works to improve the required disclosures of information for open-end credit, NCUA will continue to fulfill its enforcement responsibilities for any implemented changes.