

Alabama Credit Union League



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VIA FACSIMILE
(703) 518-6319

July 31, 2008

RE: Comments on Proposed Rule Part 706

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Ms. Rupp:

On behalf of the Alabama Credit Union League, and the credit unions we represent, I appreciate the opportunity to comment on the proposed rules regarding credit card and overdraft protection plans. Like any financial service, credit cards and overdraft protection plans can be both a convenience and asset to consumers, or a problem if they are misused. While we are concerned about the interpretation and enforcement of many of the proposed regulatory changes, I will confine our comments to the more significant issue areas.

Increasing the Interest Rate on an Outstanding Balance

While credit unions have philosophical concerns with, and generally do not practice "universal default" the proposal's intent to address the issue appears overreaching and broad in its potential application. Under the proposed rules, both creditors and consumers will find their hands tied and both parties could face greater financial instability. Consumers will be able to manipulate the envisioned system by constantly seeking introductory and promotional rates, then closing the credit line once such rate expires. For the creditor, the rule greatly limits the ability to limit risk and take into account factors outside of those found in the proposal. This will result in greater restrictions on available credit, as well as higher credit costs being passed on to the consumer to cover increased costs and losses.

Overdraft Protection "Opt-Out"

While we support consumer choice in determining the services they receive from their financial institution, and while many credit unions already have "opt out" practices for the overdraft programs, the proposed rule will be overly onerous on credit unions compared to the intended benefit for consumers. Creating a partial opt-out system for ATM and POS debit card transactions will only further this burden on credit unions and confuse the consumer. In addition, requiring a notice during each statement cycle in which a fee is assessed will likely create such a logistical difficulty that most institutions offering overdraft programs will simply include the

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notice to all members with each statement, regardless of status in or use of the program. The statement will become meaningless to the consumer. These requirements should be modified to an annual notice to members who utilize overdraft protection. In addition, the notice requirement should not apply to credit unions that provide overdraft protection on an "opt in" basis, whereby the consumer affirmatively requests the service. Properly used overdraft programs are a benefit to consumers, and save them the inconvenience of having items returned, as well as the expenses, both the charge by the payee and subsequent "down the line" costs of an NSF item. We would caution the agencies against viewing or treating all overdraft protection programs as presumptively harmful to the consumer.

Overdrafts Due to Debit Holds

We understand the agencies' intent in prohibiting overdraft fees due to holds exceeding the transaction amount placed by merchants when there would otherwise be sufficient funds available. Credit unions disagree with this practice and work with their members to rectify these situations as they arise. However, we are very concerned that the proposed rule could require turning an automated, efficient, and accurate process and forcing a return to manual hand posting. This increases the potential for error and will significantly increase time and costs. At the very minimum, significant resources would be required to review overdraft charges to determine which were due to insufficient funds, and which were due to merchant initiated holds of which the credit unions had no notice. We would strongly encourage the agencies to remove this provision from the proposed rule for further consideration and discussion.

Thank you for the opportunity to make our views on this important issue known. Please do not hesitate to contact my office if we can provide additional information.

Sincerely,



Gary B. Wolter,
President and CEO