TMG FINANCIAL SERVICES

July 10, 2008

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Secretary Rupp:

Please accept this communication as TMG Financial Services' comments on the Federal Reserve Board's, OTS, and NCUA's proposals to Open-End Credit Rules under Regulation Z, the Truth in Lending Act

Reasonable Amount of Time to Make a Payment

As a CUSO formed by the Iowa Credit Union League and Iowa Corporate Central Credit Union in 2007 to provide a credit union-oriented solution to credit unions selling their credit card portfolios as an agent issuer, we support the proposed 21-day safe harbor period between mailing or delivery of the periodic statement and the due date. We believe this time period gives cardmembers sufficient time to review their statement and make payment.

We further believe that if 21 days is deemed sufficient for statement review and payment, there should not be any additional restrictions placed on issuers to prohibit treating a payment as late if the payment is received one or more days after the payment due date. If, for example, the Agencies determine that a 3 day grace period is appropriate, we would suggest moving the safe harbor period to 24 days and maintain the payment due date as just that – the date by which payment on the account is due. When a cardholder enters into an agreement to use an unsecured credit product, there are reasonable performance expectations due from both parties. In our opinion, making at least the minimum monthly payment on time each month is a reasonable expectation placed on the cardholder.

Issuers have implemented various policies that extend a grace period beyond the payment due date or otherwise treat the payment as on time when it is received after the payment due date. If a payment is received after the payment due date, our policy is to not impose a late fee upon the cardholder unless the payment is 10 or more days late. Cardmembers who are dissatisfied with their current issuer's policies around the treatment of late payments can most likely find an issuer that will satisfy their needs in this regard, however these policies and treatments of late payments are just one of many product

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features that each cardholder needs to weigh in determining the value of the card product as a money management tool.

<u>Unfair Acts or Practices Regarding Allocation of Payments</u>

In isolation, we support the proposed listed methods of payment allocation, for accounts within different annual percentage rates on different balances, of payment beyond the minimum payment outlined by the Agencies. However if the Agencies enact the proposal regarding the <u>Application of Increased Rates to Outstanding Balances,</u> we support the Agencies permitting institutions to apply amounts in excess of the minimum payment first to balances on which the institution is prohibited from increasing the rate.

We do not support the proposed special rules of payment allocation for accounts with promotional rate balances or deferred interest balances. While well intended, this proposal will remove all financial incentive for issuers to make discounted promotional rate offers to all but their very best cardmembers, resulting in higher cost of credit for the majority of the population.

As a money management tool, many cardmembers use their open-ended credit card account specifically as a closed-end installment loan. This practice benefits issuers and consumers alike – issuers, as they fine-tune and stabilize the risk in their portfolio and cardmembers, who receive a low or no interest rate fixed-term loan that they may otherwise not qualify for. Further, the ease by which these offers are made and accepted has dramatically lowered switching costs for cardmembers.

<u>Application of Increased Rates to Outstanding Balances</u>

We do not support the proposal to prohibit issuers from increasing interest rates to pre-existing balances except in the two proposed specific circumstances. The proposal would prohibit issuers from employing a key mechanism they use to maintain an acceptable risk-adjusted rate of return on a portfolio of open-ended, unsecured receivables.

The open-ended, unsecured nature of a credit card product provides issuers the ability to change the product to align with the customer's preferences, thereby delivering increased value to the cardholder. The ubiquitous nature of rewards in the market today demonstrates issuers' ability to provide real additional value which can be quantified by the dollar value of reward redemptions.

Unlike a securitized loan, there is no physical collateral. The 'collateral' is the customer's ability and willingness to pay. In general, cardmembers are asked to do two things with their credit card product – use it responsibly, e.g. don't go over the credit limit and make the minimum monthly payment on time each month. If the cardholder becomes more of a risk because their behavior has deteriorated, the balance should have a higher risk premium associated with it because the 'collateral' has become riskier.

Increased rates on accounts, including outstanding balances is an action taken as a result of the sophistication the issuers have brought to the science of risk management of these types of portfolios. This proposal severely limits issuers' ability to take action.

We believe issuers will be forced to take the following actions to maintain the risk tolerance standards of their portfolios. First, issuers will raise the cost of credit for most people to build in a risk premium for balances that turn out to be riskier after the charges were incurred. We believe this action will reduce access to credit on a larger percentage of the population and include cardmembers who use their card responsibly, similar to insurance companies behavior after catastrophic events that either raise insurance premiums to exorbitant levels or quit offering insurance against the event.

Second, issuers today make firm offers of credit to people with marginal credit histories because a good percentage of these people will use their card responsibly and become good credit risks. Cardmembers whose credit deteriorates can today be managed appropriately using existing methods of repricing. Going forward under the proposal, issuers will be less likely to offer credit to all people with marginal credit scores, thereby reducing access to credit to a significant proportion of the population.

Finally, issuers may fundamentally change the product from an open-ended product to a series of closed-end tranches of credit whereby issuers will reassess each customer periodically and assign pricing for a fixed period of time. This option would do a better job of isolating adverse action to those cardmembers whose behavior has deteriorated, however the cost of administering this type of product operationally will increase the overall cost structure for issuers, thereby increasing the cost of credit to most everyone.

We believe that clear disclosures communicated to cardmembers periodically coupled with targeted messaging to at-risk cardmembers laying out clear consequences for continued negative behavior is the option that best educates all cardmembers, while maintaining the lowest cost of credit for all.

Firm Offers of Credit

We support the Agencies proposal to include disclosures that detail the criteria used to determine the creditworthiness of the applicant in assigning the interest rate. We believe that as consumers become more 'credit report' savvy, they are better able to choose the right credit product to meet their needs and education efforts such as these are needed to manage expectations and continue to raise awareness to the importance of maintaining a good credit history through responsible credit usage.

We appreciate the opportunity to comment on the proposed rule. If you have any questions, feel free to contact me at 515-457-2000.

Sincerely,

Eric Schurr
Vice President, Credit & Risk
TMG Financial Services