



Credit Union National Association

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cuna.org

VIA E-MAIL: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

December 23, 2009

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the  
Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Re: Docket No. R-1366 – Proposed Rule to Amend Regulation Z for Closed-end Mortgage Loans

Dear Ms. Johnson:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the Federal Reserve Board's (Board's) proposed rule that will revise the Regulation Z requirements for closed-end mortgage loans. The rule would require changes in the format and timing of the required disclosures, as well as prohibit certain payments to mortgage brokers and loan officers that are based on the loan's terms or conditions. The proposal would also prohibit creditors from steering consumers to transactions that are not in their interest in order to increase the creditor's compensation. CUNA represents approximately 90 percent of our nation's 7,900 state and federal credit unions, which serve approximately 93 million members.

We understand that the Federal Reserve Board (Board) has issued these and other rules to address the high-cost and abusive loans that certain brokers and financial institutions have made to unsuspecting borrowers. However, credit unions have not engaged in these practices, primarily because their mission and incentives are to serve their members, not to achieve and maximize profits. We urge the Board to take this credit union difference into account as it reviews the comments outlined below.

### **Summary of CUNA's Comments**

- CUNA generally supports disclosures that are helpful for consumers but believes the disclosure requirements under this proposal are excessive and would be overwhelming for consumers.



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- CUNA opposes the provisions that apply the loan originator compensation provisions to employees of the lender. Compensation systems for credit union employees have worked well, without abuse, and credit union employees were not the cause of the problems that these provisions are intended to address,
- The provisions intended to prevent lenders from “steering” consumers to certain loans should not always require lenders to provide three loan choices, especially for consumers who already know what type of loan they want.
- CUNA is concerned with consumer reaction to the provisions that would require more finance charges and fees to be included within the annual percentage rate (APR) calculation. This will result in higher APRs and consumers may believe this is because the cost of the loan increased, and not due to changes in how the APR must be disclosed. The preferable approach would be to require disclosure of the interest rate and disclosure of the finance charge in dollar terms, which will be easier for borrowers to understand and easier for lenders for purposes of complying with these requirements.
- The model disclosures should not include information comparing the borrower’s rate with other consumers and should not include theoretical savings if the interest rate were 1% lower. This information will not be useful for borrowers since there is little they can do if they are concerned about the comparisons and borrowers will generally not be able to obtain a loan that is 1% lower without paying substantial, additional costs.
- The document “Fixed Versus Adjustable Rate Mortgages” should not be required for those who request fixed rate loans since these are the safest choice, and it is not necessary to compare these with other types of loans.
- The requirement to provide final disclosures three days in advance of loan consummation raises significant operational concerns that will outweigh benefits for consumers. As for providing an updated disclosure after the final disclosure is provided, we believe this should only apply if the APR exceeds the current Regulation Z tolerances or if an adjustable-rate feature is added after the final disclosure is provided. CUNA could also support an updated disclosure if a prepayment penalty, negative amortization, interest-only, or balloon payment feature is added, as well as if mortgage insurance is added to the loan.
- If an updated disclosure is required, the loan cannot be consummated until three days after it is received by the borrower, although this waiting period can be waived by the borrower if due to a bona fide personal financial emergency. CUNA urges the Board to provide significant, additional clarification as to the situations that may qualify under this exception and to limit these to unusual and unforeseeable circumstances.
- Although CUNA would not oppose a 60-day advance notice of a rate adjustment to the loan, we would prefer a 45-day requirement. Either way, this should only apply to adjustable rate loans consummated after these rules become effective.

- CUNA opposes any requirement that credit unions not be compensated for force-placed insurance for any time period after it is in effect due to the lapse of the borrower's current insurance.
- As for requirements to maintain records of compensation agreements, CUNA believes a credit union's current system should be sufficient for purposes of complying with any new requirements if it includes adequate compensation information.
- Currently, a finance charge is considered accurate if it does not vary by the actual finance charge by more than \$100. This should be increased to at least \$200 and indexed to inflation.
- Lenders should not be required to verify the age and employment information provided by borrowers in connection with credit insurance, debt cancellation insurance, and debt suspension coverage. Also, the disclosures should be changed so as not to indicate that other types of insurance are "often" less expensive, as this may not be accurate, at least for credit unions. The rules for telephone purchases of this type of insurance for open-end credit should also apply to closed-end loans, and the premiums for such insurance should not be included in the escrow disclosures as this will lead borrowers to believe that this insurance is required.
- CUNA strongly opposes any requirement to translate disclosures for those who do not speak English or speak English as a second language. The burden for credit unions of providing these services will be staggering, especially for languages not common to the area in which the credit union is located.
- Fees for preparing a payoff statement or other services when the loan is being prepaid should not be considered a prepayment penalty.
- Credit unions and others should be given a significant amount of time to prepare for these extensive revisions to the Regulation Z mortgage loan rules. For this reason, mandatory compliance should not be required until at least eighteen months after these changes are issued in final form.

## **DISCUSSION**

### **General Comments**

CUNA generally supports disclosures that will be helpful for consumers. However, for many of the reasons outlined below, we urge the Board to substantially revise the proposal and to conduct additional consumer research as part of this process prior to issuing a rewritten proposal. Based on their relationships with their members, credit unions strongly believe these additional and enhanced disclosures are for the most part unnecessary, and the resulting confusion will actually thwart the goal of this proposal, which is to provide useful information for consumers. Under the proposal, the additional disclosures requirements are excessive and consumers will be overwhelmed and overloaded by all of this additional information. We believe less information may actually be

preferable if it is carefully targeted to the needs of consumers who apply for mortgage loans.

### Loan Originator Compensation

Under the proposal, loan originator compensation, often referred to as “yield spread premiums” or “overages,” will be prohibited to the extent it is based on the loan’s terms and conditions. This will include payments based on the loan amount, interest rate, or the existence of a prepayment penalty, but not compensation based on loan volume, the performance of loans delivered by the originator, or hourly wages. These provisions will apply very broadly since the “loan originator” will include both mortgage brokers and employees of the lender who perform loan originator functions.

Although we certainly understand the intent of these provisions, which is to eliminate abuses that occurred in connection with yield spread premiums that often resulted in excessive rates and fees paid by borrowers, we oppose these provisions of the proposal to the extent they apply to employees of financial institutions. The form of compensation for loan officers varies among credit unions and this often includes at least a portion that is based on the loan amount.

A system of compensation based at least in part on the loan amount has worked well over the years for both credit unions and their members. Since credit unions have not been the cause of any abuses in the area of mortgage lending over the years, this demonstrates that these compensation arrangements can be applied in a non-abusive manner, at least for certain segments of the financial services industry. When implemented correctly, as is the case with credit unions, these systems encourage a high level of effort and incentive for credit union employees to ensure their members receive the loan that is best suited for them. This is because credit unions and their employees realize that providing loans that best meets the needs of their members will result in higher loan volumes, which benefits credit unions and their members.

Not only should providing compensation based on the loan amount be acceptable, but we also believe credit unions and others should be permitted to vary this amount in certain situations. For example, a loan officer should be permitted to earn more compensation for making certain loans in a low-income area that are otherwise beneficial to the borrowers, although we agree this additional compensation should be provided directly by the financial institution and should not be directly imposed on the borrower through higher points and fees. However, the decision as to whether to provide additional compensation in these situations should be made solely by the financial institution and requiring or prohibiting such practices should not be dictated by the Board or other government entities.

In addition, we are concerned that these provisions will not only apply to credit union employees, but also to certain small credit unions that engage in what may be considered “table funded” loan transactions. In these types of transactions, the loan the credit union makes is funded at settlement by a contemporaneous advance of funds from another financial institution at which time the credit union assigns the loan to the institution advancing the funds.

We recognize that the current definition of “mortgage broker” would include credit unions that engage in these types of transactions. However, the proposed compensation restrictions will threaten these very successful arrangements that have allowed small credit unions to provide mortgage loans for their members. These credit unions may no longer be able to provide such services absent these relationships, and we urge the Board to consider exceptions in situations such as these in which there have been no indications that abuses have occurred.

We recognize that abuses in this area have occurred in other segments of the financial services industry and agree that compensation should not be linked to making adjustable rate loans instead of fixed rate loans, or loans with high points and fees. For this reason, we believe that if the Board imposes these compensation restrictions, then they should only apply to loans that exceed the thresholds under the Home Ownership and Equity Protection Act (HOEPA), which have traditionally been the types of loans where these abuses have occurred. We also believe any such restrictions should not apply to home equity lines of credit (HELOCs) since the apparent abuses intended to be addressed by these provisions have not been an issue for these types of loans.

Furthermore, if restrictions are imposed in this area, we urge the Board to coordinate closely with the U.S. Department of Housing and Urban Development (HUD) to ensure they are consistent with the Real Estate Settlement Procedures Act requirements. We suggest the Board delay imposing compensation restrictions until this process has been completed.

#### “Steering” Consumers to Certain Loans

The proposal would prohibit loan originators from “steering” borrowers to a specific loan product based on the fact the originator will receive additional compensation, even though the loan may not be in the borrower’s best interest. The proposal would not require the broker or loan officer to direct the borrower to the loan that provides the least amount of compensation, although this will generally satisfy this requirement. Compliance with these provisions would be satisfied if the broker or loan officer offers the borrower at least three choices for each type of loan, such as fixed or variable rate loans. These three choices must include the one with the lowest rate, the second lowest rate, and the one with the lowest dollar amount of points and fees.

We believe providing these three choices should not be required in order to demonstrate compliance with these provisions, especially if the consumer knows which type of loan he or she wants. For example, providing options for variable rate loans would not make sense for credit union members who clearly indicate they want fixed rate loans. This would merely serve to confuse members who have already undertaken their own research and have chosen fixed rate loans that best meet their needs. Similarly, this requirement to provide three choices may not be appropriate for certain smaller financial institutions that may only offer one or two variations of mortgage loans.

We also want to emphasize that there are other situations in which a credit union will steer a member to a more appropriate loan that may best meet his or her needs, regardless of whether it generates more or less compensation. For example, a member may specifically request a variable rate loan but the credit union will suggest a fixed rate loan at a higher rate because the overall advantages of the fixed rate loan outweigh the additional cost to the member. These are all part of the credit union's efforts to provide financial counseling and to work with their members to select the loan that is most appropriate, and this proposal should not hamper this valuable service that credit unions provide to their members.

If the Board proceeds and includes these or similar provisions in the final rule, we urge that they not include HELOCs. Not only has there been no evidence of abuse or problems with HELOCs that would necessitate these types of requirements, but credit unions and other financial institutions generally do not offer the wide range of options and features for HELOCs that are often available for first-lien mortgage loans, which means the opportunities for steering with HELOCs are much less as compared to other types of loans.

#### Changes in the Calculation of the Finance Charge and the APR

The proposal would revise the calculation and the disclosure of the APR to encompass most fees and costs paid by borrowers in connection with the loan transaction. This would include charges payable directly or indirectly by the borrower that are imposed as a condition to the extension of credit. It would also include charges by third parties if the lender requires the use of a third-party as part of the loan process, even if the borrower chooses the third-party service provider or if the lender retains a portion of the third-party charge.

We are concerned as to the reaction of those consumers who apply for loans after this rule becomes effective. The APRs disclosed to these consumers will be noticeably higher than for those who applied for identical loans prior to when the rule becomes effective, solely because of the change in the calculation of the APR. However, most consumers will be very confused and will likely not realize the increased APR results primarily from regulatory changes and may mistakenly believe that the APR is caused by a higher interest rate and additional charges.

They may very well be upset with the lender, based on this mistaken assumption, especially if they do not identify any market or other reasons that would lead to this increased APR. This perceived change in the APR may be more pronounced in urban areas that impose higher fees and charges for real estate transactions.

We urge the Board to exclude these changes from the APR calculation. An even more preferable approach would be for the required disclosures to indicate the interest rate, with the fees and charges being disclosed in dollar terms, similar to the changes in the APR calculation the Board issued earlier this year for open-end loans. To the extent consumers shop and compare mortgage loans, they tend to compare the interest rates and the costs listed on the good faith estimate (GFE), as opposed to comparing APRs. Also, credit unions and others do not tend to provide the APR for mortgage loans in advertisements or in response for information from consumers. Lenders in these situations tend to provide the interest rate in these situations. For all these reasons, we strongly believe this proposed change to the APR calculation would not provide better information or protection for consumers and certainly not simplify or reduce burdens for lenders, as the Board has indicated in the proposal.

In the proposal, the Board requested comment as to the specific impact this change in the APR calculation may have on smaller loans or loans in specific areas with high settlement charges, which may potentially result in certain loans exceeding the HOEPA thresholds, the “higher-priced” thresholds under the recent Regulation Z mortgage loan rules, or perhaps the 18% usury ceiling under the Federal Credit Union Act. Credit unions are concerned that APRs may approach or exceed these thresholds, especially for relatively small-dollar loans or when loan rates increase from their current, historic low levels. However, we believe these potential issues can be addressed at least to some extent by changing the thresholds to mitigate these effects.

For example, the HOEPA threshold for first lien mortgage loans is eight percentage points above comparable Treasury securities and ten percentage points above comparable Treasury securities for subordinate lien loans. These thresholds could be increased by an amount that represents the overall increase in the APR that would occur as a result of the changes outlined in this proposal.

### General Disclosure Issues

Under the proposal, the disclosures provided after application would include a graph showing how the borrower’s APR compares to the average rates of comparable, conforming loans for borrowers with excellent credit and the average rates for borrowers with impaired credit. We believe providing this type of disclosure is excessive when it is provided in addition to the other required information, and we do not see how it would be helpful for borrowers as this will

not change their specific APR. The only result would be higher costs for credit unions, which would be passed on to the members.

Although the Board may expect that borrowers may take actions to improve their credit history if their APR is higher than average, we believe this would only happen if they do not qualify for the loan or are otherwise unable to make the monthly payments. These situations will arise regardless of whether borrowers received the graphical information.

On these disclosures, lenders would also be required to provide the savings per month if the rate was reduced by one percentage point. We do not believe this information should be provided as it would not be helpful for consumers at all and, again, would only result in increased costs for credit unions, which would be passed on to the members. At the very least, this information is simply not relevant because the lower rate is not likely to be the current interest rate or is otherwise not the rate available to the borrower, unless the borrower incurs the substantial cost of buying down the rate to this lower level. More importantly, this information will actually be very confusing to borrowers as it will give them the false impression that this lower rate is one that is available at no additional cost. The savings indicated will be illusory because it does not take into account that the borrower would have to pay a substantial amount in order to buy down the rate to the lower level.

The proposal will also require disclosure of the loan originator's unique identifier that the originator will need to obtain under the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act. For these provisions, the Board requested comment as to whether there are mortgage loans in which there may not be a loan originator, such as a loan offered through an automated process without contact with an originator. In these situations, there are automated systems that certain credit unions use in which approval is provided by the system but is then verified by an employee who would be considered the originator. For this reason, the identifier should not be required for the early disclosure provided three days after loan application because the application may not have yet been submitted to an employee who will be acting as the originator, although we would agree that the identifier should be included in the final disclosure provided three days before settlement since the originator will be known by that time.

#### Disclosures at Time of Application

New disclosures will need to be provided if the borrower expresses an interest in an ARM loan at the time of application, which will replace the Consumer Handbook on Adjustable Rate Mortgages (CHARM) booklet. At the time of application, all borrowers must receive a disclosure titled "Key Questions to Ask about Your Mortgage" and a disclosure titled "Fixed Versus Adjustable Rate Mortgages."

We urge the Board to clarify that the “Fixed Versus Adjustable Rate Mortgages” disclosure should not be required for those who request a fixed rate loan. These loans tend to be the safest choice for borrowers, assuming they are able to make the required payments, and it would be unnecessary to complicate or delay this process by providing information on ARM loans if a borrower is clearly not interested in such a loan.

The “Key Questions to Ask about Your Mortgage” document outlines a number of risk factors. We agree this list is sufficient and it would not be necessary to add other factors to this document.

### Providing Final Disclosures Three Days Before Loan Consummation

Credit unions have a number of operational concerns with the proposed requirement that final mortgage loan disclosures be provided no later than three business days before loan consummation. Under these provisions, the lender may presume the disclosures are received three days after they are mailed or delivered, which means they would need to be mailed or delivered at least six days before loan consummation.

Credit unions, as with other lenders, often do not have all the loan information six days in advance and must rely on others, such as closing agents and attorneys, for certain information that needs to be included in these final disclosures. It would be very difficult for lenders to control this information and ensure that the final disclosures are complete within this proposed time frame.

Not only would this requirement be burdensome for lenders, but we are not convinced that the benefits to borrowers would be significant. We understand these provisions are intended to address problems that borrowers have experienced in the past, such as being surprised by unexpected fees and charges at settlement. By this time, arrangements for moving and, perhaps, selling the current home have already been made and cannot easily be changed, often forcing consumers to pay these additional fees without the ability to question or refuse to pay them if they are unwarranted.

Credit unions do not take advantage of their members by engaging in the practice of increasing fees under their control just prior to the loan closing in order to maximize revenue, and they certainly understand the need to better protect borrowers in these situations. However, in our view, requiring disclosures three days in advance of settlement would not necessarily alleviate these concerns. The arrangements for selling the current home and moving to the new home are very complex and providing three additional days notice when fees and other charges change would likely not provide enough time for the borrower to adequately contest these new fees or obtain another loan.

We also do not believe borrowers would have additional protections under this proposal because they have, and would always continue to have, the right to cancel the loan prior to closing, regardless of whether they have three extra days to review the final disclosures. For these reasons, we urge the Board to forego these timing requirements with the final disclosures.

In certain circumstances, the proposal would require that an updated disclosure be provided after the “final” disclosure is delivered. Under one alternative being considered by the Board, an updated disclosure would need to be provided at least three business days before loan consummation only if the APR exceeds current Regulation Z tolerances or if an adjustable-rate feature is added after the original “final” disclosures are provided.

We support this approach and would support certain other added features that should also require an additional disclosure after the final one is provided. These would include the addition of a prepayment penalty, negative amortization, interest only and balloon payment features, and if mortgage insurance is added to the loan after the final disclosure is provided. However, we believe a disclosed APR that is only insignificantly higher (but not lower) than the actual APR should be considered accurate. This benefits the borrower and there is no need to delay settlement by sending an updated disclosure, although this should be disclosed at the time of settlement.

#### Advance Notice of Rate Adjustment

The proposal would require lenders to provide advance notice of a rate adjustment at least 60, but no more than 120 days, before payment at a new interest rate is due. This would be an increase from the current 25-day advance notice requirement.

The Board requested comment as to whether a 45-day notice requirement would better balance the benefits to borrowers with the burdens imposed on lenders, such as verifying indices and preparing disclosures. We believe 45 days should be sufficient for borrowers but would not necessarily oppose the 60-day proposed change. However, we strongly urge the Board to apply the timing requirement only to loans consummated after this rule becomes effective, and not to existing ARM loans, regardless of whether the time period is 45 or 60 days. The time period of making interest rate changes for current loans is already outlined in the loan agreement, including the promissory note, which means the timeframe is a contractual term that cannot be easily changed.

#### Force-placed Property Insurance

The proposal includes more restrictions for lenders who impose force-placed property insurance. These provisions require a 45-day notice before the borrower may be charged for this type of insurance.

In our view, a credit union should not have to wait 45 days before being compensated if the borrower no longer has adequate property insurance and should not have to absorb the costs of providing insurance when this occurs. These proposed provisions are not in any way addressing consumer abuses as credit unions have every right to charge immediately for force-placed property insurance, since this results from consumers not paying for the insurance they are obligated to have under the terms of the loan. Borrowers in these situations should not have the ability to avoid paying for insurance for any length of time, especially since this results from a violation of the loan agreement by the borrower.

We understand there may be situations when the lapse in property insurance occurs through no fault of the borrower. An example may be when the insurance company does not properly credit the payments. However, this is not the fault of the lender, and in these situations we believe the proper recourse would be for the borrower to receive compensation from the insurance company or any other party responsible for the actions that led to the imposition of force-placed property insurance.

#### Records of Compensation Agreements

Under the proposal, the lender must retain a record of the compensation agreement with the loan originator that was in effect on the date the transaction's rate was set. The lender must also maintain a record of the actual amount of compensation that is paid to the originator for each transaction.

The Board has indicated that the HUD-1 statement would be appropriate for the mortgage broker as a record of the compensation received. As for loan officers, many credit unions maintain sufficient compensation information that is maintained under their record retention procedures, and we believe this should be adequate for purposes of these requirements. Also, for loan officers, many credit unions provide compensation that is at least in part in the form of salary that cannot be directly attributed to a specific loan. In these situations, it should still be adequate for credit unions to retain their current compensation records, without the need to modify them for purposes of complying with these record retention requirements.

#### Finance Charge Thresholds

Currently, a finance charge is considered accurate if it does not vary by the actual finance charge by more than \$100. The Board requested comment as to whether this threshold should be raised to \$200 and whether it should be indexed to inflation. We would support this increase and indexing the amount to inflation as this will help lenders in their compliance efforts, without any significant adverse effects for consumers.

## Credit Insurance, Debt Cancellation Insurance, and Debt Suspension Coverage

The proposal outlines numerous examples of what would be considered “reasonably reliable evidence” of the borrower’s age or employment status that the lender may use in connection with the sale of credit insurance, debt cancellation insurance, and debt suspension coverage. For the borrower’s age, this could include the date of birth on the driver’s license, the credit report, or other government-issued identification. For employment status, this could include the credit application, the Internal Revenue Service (IRS) W-2 form, other tax returns submitted to the IRS, or payroll receipts. In our view, these examples should be sufficient evidence at the time of sale and would urge the Board to refrain from imposing on lenders any additional requirement to verify this information after the product is sold as we would not see any benefit for either lenders or consumers to impose such a verification requirement.

The model disclosures provided by the Board requires a statement that “[o]ther types of insurance can give you similar benefits and are often (emphasis added) less expensive.” We do not believe it would be accurate to indicate that other types of insurance are “often” less expensive than the insurance provided by credit unions. It would be more accurate to delete “are often” and insert “may be,” and we urge the Board to make this change to the model disclosures or otherwise clearly indicate that this would be acceptable.

Under the Regulation Z rules issued earlier this year for open-end credit, the Board created an exception to the requirement for providing prior written disclosures and obtaining written signatures or initials for telephone purchases of credit insurance, debt cancellation insurance, or debt suspension coverage. This exception would apply, as long as disclosures are initially provided orally, with written disclosures being delivered shortly thereafter.

The current proposal does not include such an exception for closed-end transactions, but we urge the Board to provide such an exception. We see no reason for the distinction between open-end and closed-end loans, and the compliance burdens for lenders would be reduced if there were consistency in these provisions as they apply to both open-end and closed-end loans. For example, such consistency would simplify and reduce confusion when training staff, which should help avoid inadvertent violations of these provisions.

The Board requested comment as to whether premiums or other amounts for credit insurance, debt cancellation insurance, and debt suspension coverage and similar products should be excluded from the disclosure of escrows for taxes and insurance. We agree with this approach since borrowers may otherwise believe these products are required and, therefore, will not analyze as to whether they are appropriate.

Overall, we urge the Board to not impose significant restrictions on these types of insurance. Although others often recommend term life insurance as an alternative to credit insurance, debt cancellation insurance, and debt suspension coverage, we believe there are many situations in which term insurance is not the appropriate product. It is often more difficult to qualify for term insurance, due to higher medical and other underwriting standards, and there are many consumers who may not be able to qualify at all for term insurance, regardless of the cost.

Also, the lender is not guaranteed to be the beneficiary, and it is the lender that must be paid if the borrower cannot make the loan payments. For term insurance, the beneficiary is usually a family member, and the lender will often not be repaid in these circumstances, which defeats the purpose of this insurance. In general, the types of insurance offered by credit unions in these situations are preferable because it is targeted and liberally underwritten for the purpose of repaying the specific debt in certain situations.

### Translation of Disclosures

As part of the proposal, the Board requested comment as to whether lenders should be required to translate disclosures for those who do not speak English or speak English as a second language. We strongly oppose such a requirement as we believe consumers who need to have these documents translated in another language should have the responsibility to obtain this information on their own. Creditors are not currently required to provide other services in different languages, as specified by the consumer, and we see no reason for a requirement in these situations. Although credit unions will certainly provide translation services for the benefit of their members if they are otherwise available, the cost and burdens of ensuring there is staff on hand or services available that can translate these documents in any language requested by a credit union member will be staggering, especially for languages not commonly spoken in the area in which the credit union is located.

### Prepayment Penalties

Under the proposal, fees for preparing a payoff statement or providing other services when a borrower is prepaying the loan would not be considered prepayment penalties since they are also charged at the end of the loan term. We agree with this provision, as these fees are not commonly considered to be prepayment penalties.

### Implementation Period

Because this proposal incorporates such extensive and far reaching revisions to the Regulation Z closed-end mortgage loan rules, we believe credit unions and others should be given a significant amount of time to prepare for these changes.

For this reason, we believe that mandatory compliance should not be required until at least eighteen months after these changes are issued in final form. This time will be necessary in order to allow credit unions and others sufficient time to revise the Regulation Z disclosures, provide appropriate staff training, and implement the necessary data processing changes.

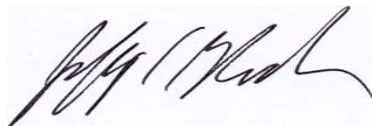
Although we realize that eighteen months is a significant period of time, we believe it is warranted for this proposal, especially since credit unions and others will also need to comply with the very extensive changes to the HELOC rules that we anticipate will be issued at approximately the same time as these closed-end mortgage loan rules. Over the years, the Board has issued numerous revisions to its consumer protection rules and has often delayed mandatory compliance for one year, or more, in order to provide financial institutions sufficient time to implement the necessary changes. This proposal incorporates changes that are much more comprehensive than many of the proposals that the Board has issued previously, which warrants delaying the mandatory compliance date for a longer time period, at least eighteen months.

The Board has invested a significant amount of time in developing these extensive revisions to the Regulation Z closed-end mortgage loan rules to ensure that they serve the needs of consumers. We now request that the Board provide credit unions and others with the amount of time they will need to ensure successful implementation of these changes.

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Thank you for the opportunity to comment on the proposed changes to the Regulation Z requirements for closed-end mortgage loans. If you have questions about our comments, please contact Senior Vice President and Deputy General Counsel Mary Dunn or me at (202) 638-5777.

Sincerely,



Jeffrey P. Bloch  
Senior Assistant General Counsel