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Via Electronic Delivery to:

February 1, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Docket No. R-1399
75 FR 78636578645

Ms. Johnson and Board:

Iowa Bankers Association (IBA) is a trade association representing over 350 banks and savings and loan associations operating in the state of Iowa. Our membership is predominantly comprised of banks and savings associations deemed to be "small" for purposes of the Community Reinvestment Act (CRA) with a handful of "intermediate small" and large banks. The vast majority of IBA member banks have limited open-end credit offerings. Most of our members do not have portfolio credit card programs, but rather have developed third party relationship to offer credit cards. Our members do, however, offer home equity lines of credit, overdraft lines of credit and personal lines of credit (both secured and unsecured). Unless a member bank has a private banking or wealth management division, the overdraft lines of credit and personal lines of credit typically fall beneath the current Reg. Z exemption thresholds.

We appreciate the opportunity to comment on the Board's proposed rule to implement Section 1100E of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Section 1100E mandates increasing the threshold for exempt consumer credit transactions from $25,000 to $50,000. In addition, Section 1100E calls for annual adjustment to the threshold based on the any annual percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Annual Adjustment
We appreciate the Board's use of the June 1 CPI-W as the index for determining the threshold increase for each adjustment. The seven month period from June 1 to January 1 should allow adequate time for loan system modifications and staff training to facilitate the required annual adjustments.

Open-end Credit Subsequent Change Rules
Typical rule-making provides for an effective or mandatory compliance date and then applies the revised requirements for all applications on or after that date. The application of the revisions in such a manner serves to both reduce the compliance burden to financial institutions to "look back" and identify those existing accounts that may be impacted by the rule-making and enables institutions to focus their time and resources on credit applications received on or after the effective date.

We found the "subsequent change" rules related to open-end credit to be particularly complex. Under the current exemption found in §226.3(b), an open-end credit line meets the exemption if (1) the creditor

makes a firm commitment to lend over $25,000 with no requirement of additional credit information for any advances; or (2) the initial extension of credit on the line exceeds $25,000. The only subsequent event that would negate the exemption is when a security interest is taken at a later time in any real property, or in personal property used or expected to be used as the consumer's principal dwelling.

The proposed revisions to the open-end exemption found in the Commentary to §226.3(b) lay out a series of "if this, than that" scenarios that differ for subsequent changes when the exemption is related to the initial extension of credit exemption versus the firm commitment exemption. If a subsequent change results in an account no longer qualifying for an exemption, the creditor must begin to comply with all applicable requirements of this part within a "reasonable period of time" after the account ceases to be exempt. Thus, the creditor would be required to provide the disclosures required by §226.6 reflecting the current terms of the account and begin to provide periodic statements as required by §226.7.

Comment 3(b)-2(v)(A) indicates if an open-end account is initially exempt based on a firm commitment to extend credit, in order to remain exempt based on the firm commitment, the amount of the firm commitment must continue to exceed the threshold limits adjusted annually. Comment 3(b)-2(iv)(C) then goes on to provide an ***additional*** *subsequent exemption for the firm commitment exemption: if while qualifying for the firm commitment exemption an "initial advance" is taken in excess of the threshold amount in effect at the time the extension is made, the exemption remains even if the threshold limit is adjusted higher than the initial firm commitment. In order for the creditor benefit from this additional continued exemption, the "initial advance" must be one single advance made in excess of the threshold amount in effect at the time the extension is made. The exemption is not available if the amount advanced to the firm commitment amount, or in excess of the threshold amount, is done in multiple advances.*

We would ask that the Board reconsider this provision and allow the line to enjoy the firm commitment exemption if multiple advances (rather than a single advance) aggregate an amount in excess of the threshold in effect at the time the commitment is made. Consumers often will request a line of credit and contemplate taking multiple advances as funds are needed for specific purposes in order to reduce their finance charge costs. Creditors may find it difficult to monitor and track advances on firm commitments and find it less costly and safer from a compliance perspective to eliminate open-end lines and just offer single advance, closed-end loans which ultimately will result in the consumer paying more in finance charges on the single advance than they would have with an open-end line, due to funds being advanced only as needed rather than all up-front in a single advance. Consumers would also lose the benefit of the open-end line's future advance clauses and would find themselves instead entering into multiple closed-end loans with processing and closing fees incurred with each closed-end loan.

Exemption for Open-end Accounts Exempt Prior to July 21, 2011

Proposed comment 3(b)-6(ii) indicates if, prior to July 21, 2011 a creditor makes a firm commitment to extend credit in excess of $25,000 on an open-end account, the account remains exempt until July 21, 2012. If an initial extension of credit of more than $25,000 is made prior to July 21, 2012 the account remains exempt after July 21, 2012 even the threshold increases (provided the firm commitment to lend is not reduced below $25,000). However, if an initial extension of credit of more than $25,000 is not made, the firm commitment must be increased to the adjusted threshold amount in effect prior to July 21, 2012 for the account to remain exempt.

We find this provision to be overly burdensome as it requires institutions not only to "look back" and identify those open-end lines consummated prior to effective date, but also to make a determination as to whether or not an initial advance was made in excess of $25,000 in order to determine if the line may enjoy the continued exemption. For accounts opened after the July 21, 2011 effective date, institutions can put in place a process to "flag" or monitor those accounts that do not take an initial advance in excess of the applicable threshold. However, institutions do not have such systems in place to monitor

existing *accounts. In order to comply, many of our smaller institutions, that do not have the benefit of in-house IT analysts or system operations, will likely find themselves doing manual searches of existing* lines to determine if the exemption applies. This seems to be at odds with the spirit of the regulatory relief initiative announced by President Obama on January 18, 2011 (Executive Order 12866) calling for simplified compliance procedures and the elimination of over-burdensome regulatory initiatives.

We would respectfully request the Board reconsider this firm commitment provision; calling for the firm commitment exemption on accounts opened *prior to July 21, 2011 only to be lost if the creditor* reduces the firm commitment to $25,000 or less.

We acknowledge that the manner in which the Dodd-Frank Act is written does not provide much latitude in the rule-making process for the Board. The language is fairly straightforward:

> **SEC. 1100E. ADJUSTMENTS FOR INFLATION IN THE TRUTH IN LENDING ACT.**
> (a) CAPS.—
> (1) CREDIT TRANSACTIONS.—Section 104(3) of the Truth in Lending Act (15 U.S.C. 1603(3)) is amended by striking ''$25,000'' and inserting ''$50,000''.
> (2) CONSUMER LEASES.—Section 181(1) of the Truth in Lending Act (15 U.S.C. 1667(1)) is amended by striking ''$25,000'' and inserting ''$50,000''.
> (b) ADJUSTMENTS FOR INFLATION.—On and after December 31, 2011, the Bureau shall adjust annually the dollar amounts described in sections 104(3) and 181(1) of the Truth in Lending Act (as amended by this section), by the annual percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers, as published by the Bureau of Labor Statistics, rounded to the nearest multiple of $100, or $1,000, as applicable.

We do believe, however, the Board does have the ability to make adjustments to the subsequent event provisions so that the rules could be constructed in a manner that is less confusing and burdensome to creditors. As currently written, the monitoring requirements on existing lines will be a challenge for creditors; particularly, small creditors who do not enjoy the expertise of in-house IT staff or operations personnel to assist developing automated systems to identify the existing accounts that could subsequently lose their exemption.

If you have questions about these comments, please contact the undersigned at 515-286-4361 or via e-mail, rschlatter@iowabankers.com. Thank you for your time and consideration.

Sincerely,

Ronette K. Schlatter, CRCM
Senior Compliance Coordinator