



MilkYourMoney.com

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Dedicated to helping consumers make smart everyday money decisions.

August 4, 2008

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

Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW
Washington, D.C. 20552

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

VIA EMAIL TO: regs.comments@federalreserve.gov

RE: Proposed Amendments to Regulation AA, Docket No. R-1314

Dear Ms. Johnson; Chief Counsel's Office of the OTS; and Ms. Rupp:

We appreciate the opportunity to comment on the proposed rules that the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, and the National Credit Union Administration (collectively, the "Agencies") published in the Federal Register on May 19, 2008. Our comments will focus on Regulation AA (Unfair Acts or Practices) intended to prohibit unfair or deceptive acts or practices by banks in connection with credit card accounts and overdraft services for deposit accounts.

MilkYourMoney.com is a daily blog dedicated to helping it's readers reach their financial goals by making smart everyday money decisions. It's our mission to instill in readers that anyone has the potential to reach their financial dreams, regardless of their income level. We don't believe having six-figure salary or a corner office is necessary to become wealthy or financially comfortable. Practicing frugality, discipline, and patience can turn anybody's debt into dividends and an early retirement into a reality. Because of the MilkYourMoney.com mission and dedication to serving the consumer, we find the proposed rules of great interest and have comments on the following proposals.

1. Allocation of Payments

This proposal would greatly aid consumers by properly allocating payments exceeding the minimum payment. Many cardholders have multiple annual percentage rates (APRs) on one account/card. For example, it's common for a cardholder to have different APR for cash advances than purchases. Usually, a cash advance carries the higher APR, which under the

current rules, any payment exceeding the minimum is often applied to the lower APR purchases. This harmful practice leaves the consumer piling up greater debt at higher rates and given the choice would never pick this type of payment allocation.

Although the proposal is a giant step forward in this area, we feel the proposal could be drafted even stronger. As we interpret the rule, companies are allowed to allocate extra payments equally across multiple APRs on an individual's account. This exception should be eliminated and any and all extra payments should be allocated to the highest APR, just as the consumer expects when they intentionally make an extra payment toward their account. Under no circumstances would a consumer want their extra payment allocated to the lowest APR transaction on their account, doing so would only incur additional future interest payments and create less available credit to the borrower.

2. Applying Rate Increases to Existing Balances

This proposal is also to the advantage of the consumer, by only allowing banks to increase the interest rate on outstanding balances for the following three reasons: 1) the operation of an index (variable rate); 2) the expiration or loss of a promotional rate; and 3) the minimum payment not being received within 30 days of the due date.

Again, this proposal goes a long way in protecting cardholders of unexpected and unwarranted rate increases on outstanding balances; however, we feel the third exception does not justify an immediate interest rate hike. Many circumstances—not at the fault of the account holder—could result in delayed payments, ultimately unfairly raising their interest rate. For example, something as simple as a payment getting lost in the mail could send an account spiraling into default because of a heightened interest rate. The third exception should be amended to allow a bank to raise the interest rate of an account holder if the account holder does not pay their account within 60 days of the due date or 3 such late payments throughout a given year. These changes would give a consumer ample time to send payment in case of situations beyond their control.

3. Firm Offers of Credit

This proposal would require banks making firm offers of credit advertising multiple APRs or credit limits to disclose the factors that determine whether a consumer will qualify for the lowest APR and highest credit limit advertised.

This disclosure proposal is one with good intentions, but we fear may actually raise more questions than answers to possible APRs and credit limits. Simply disclosing that an APR or credit limit may differ from an advertised offer depending on credit history, debts, or income is not a helpful disclosure to most consumers. Most consumers applying for lines of credit do not know their current credit score or even know what factors weigh into how such a credit score is determined. Most people applying for credit will apply without reading such a disclosure and will find out they did not get an advertised APR or credit limit after the fact. Meaning, the credit was already taken out in their name and the damage has been done. Consumers should plainly know what APR they will receive and what their limit would be before agreeing to taking out a new line of credit. A disclosure, explaining otherwise, is not sufficient enough to protect consumers when searching for the best offers.

4. Problems Not Addressed in Regulation AA

Although the proposals laid out in Regulation AA are giant steps forward in terms of consumer protections in the area of unfair and deceptive acts or practices by banks, the following problems also need to be addressed and incorporated into the final adopted rules:

- The number of overlimit fees that may be applied in a single billing cycle should be fairly determined to properly put responsibility on the account holder to stay within their limit, but not overly punish them into unaffordable debt.
- Finance charges are often applied at the transaction date and not at the posting date when the money is actually financed. Finance charges should not be charged before the money is actually lent to the consumer.
- Fees charged to a consumers account for non-use of a card should be banned. Credit is something consumers earn and being charged for not using available credit is cruel and irresponsible.
- Penalty interest rates should be capped at a reasonable rate to both interested parties.
- A disclosure should be added to each monthly bill that clearly states the amount of time it will take and the cost to the consumer to completely pay off an account when only making the required minimum monthly payments.

5. Conclusion

The proposed rules are long overdue and in general are legitimate in their intentions. While we generally feel the proposals do not go far enough, we applaud the Agencies for taking the first and necessary steps to curb these abusive practices. We hope before the final rules are adopted, MilkYourMoney.com suggestions in addition to various other proposed amendments filed in conjunction with the Federal Reserve notice, will be taken into consideration. We would be remised if we did not applaud the Congressional efforts of Congresswoman Carolyn Maloney (D-NY) for taking the important lead on the issue and we encourage her to continue advancing her legislation through Congress, which would codify the proposals and in many instances allow for greater consumer protections.

Again, thank you for the opportunity to comment and please do not hesitate to contact MilkYourMoney.com if we may be of any assistance.

Sincerely,

Ben, Frank

Ben & Frank

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MilkYourMoney.com