



The Oak Tree *Advantage*

► INDUSTRY NEWS

Genelle Rich, President



What is *shocking* in today's Credit Union industry news? *Everything and nothing*. The changes we are seeing today in the regulations are second nature to Oak Tree Business Systems, Inc. As you will read within this newsletter, Oak Tree's professionals attempt to demystify the newest changes so you don't have to worry about your documents being compliant with new regulations. We have experts on-site who handle the day-to-day questions that come with regulatory updates. In addition, we also consult closely with our council to ensure that we are all in agreement of the newest regulatory topics.

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Oak Tree Business Systems has always been on the leading edge of providing sound lending documents to Credit Unions. For over 30 years now, Oak Tree Business Systems has streamlined the process evolving from exclusively pre-printed documents to a laser-driven format under any data processing system with the maximum amount of regulatory protection in your lending documents. We have made it our business to continue to provide the highest standards on which the company was built so many years ago.

For those Credit Unions that continue to use Oak Tree Business Systems for a forms solution, you have nothing to worry about. Oak Tree will continue to update your lending forms to ensure regulatory compliance of the highest level. If you are not an Oak Tree Business client, please feel free to contact us by email, fax or telephone for any information that may be of interest. We would be happy to help streamline and simplify your lending process. ♣

▶ WHAT THE FUTURE HOLDS...

Michael D. Maloney

Significant change can disrupt the view we hold of our future. This point has been especially true when reviewing the amount of legislation that has been discussed and implemented over the last year and a half in the financial industry. Of particular interest is the change to the Official Commentary to §226.20(a)(20) of Regulation Z that pertains to the replenishing criterion.

Although §226.20(a)(20) itself remains unchanged the new commentary provides that while a creditor may "occasionally or routinely verify credit information such as the consumer's continued income and employment status or information for security purposes" in order to meet the definition of open-end credit such verification of credit information may "not be done as a condition of granting a consumer's request for a particular advance under the plan." Further, "a credit line is self-replenishing if the consumer can take further advances as outstanding balances are repaid without being required to separately apply for those additional advances."

Advantageous Options...

While open-end lending is still a viable option for our credit union partners and programs like personal lines of credit and overdraft protection will continue under an open-end structure, rule changes might affect options for how you would like to manage your open-end plans. With that said, there is more than one approach to consider. Based on your membership,

service delivery methods and loan policies, you will need to consider which alternative is best.

(1) Maintain an open-end credit policy on all loans. Some of our partners with smaller and more intimate fields of membership have decided to maintain their existing policies regarding open-end credit. Although verification of credit information will soon be prohibited for subsequent advance requests on established product lines, creditors may nevertheless confirm that the collateral's value is sufficient to justify the amount requested, and if it is then the amount would be advanced. For example, assume a member has a previously established auto secured open-end product, the balance has been reduced by \$15,000 and the member would now like to borrow an additional \$7,000. Creditors may confirm that the present value of the automobile, pursuant to the creditors written lending policy, is sufficient to justify the new balance that would be owed. If the collateral's value is insufficient the request may be denied, otherwise the advance must be made.

*ReadyTalk
Conferences on
this topic are
available in May
2010. Contact Oak
Tree for more
information!*

In conjunction with maintaining an open-end portfolio of products, creditors may establish a risk management program that consists of periodic credit reviews of their borrowers. Such a program could take different forms ranging from obtaining a credit score on an annual basis all the way to and including full underwriting of income, credit and employment information multiple times *...Continued on Page 4*

▶ EFFECTIVE AUGUST 22, 2010 — FAQs for Proposed Reg Z Changes

Regulation Z Changes — Effective August 22, 2010

Q. I understand that there are proposed rules, that if adopted, would effect my risk-based lending credit review process and rate increases, along with the fees that I can charge to credit card accounts in general. Is that true?

A. Yes, but while the rule is only a proposal at this point, the Federal Reserve Board has gone on record and stated that it will be finalized with an effective date of August 22nd.


Q. We are a federal credit union and have always been able to charge whatever fees we want. Do we still need to be concerned with this?

A. Absolutely. This rule will mark a fundamental departure from the manner that fees are regulated today (at the state level), and on the effective date many fees will instead be regulated at the federal level.

Q. What is being regulated? Is it the amount that I can charge or is it the type of fee that I can assess?

A. Actually, it would be both. First, creditors would be prohibited from charging late charges, over limit fees and other "penalty fees" in amounts that would exceed the actual amount of the violation. Second, inactivity fees would be prohibited and creditors would no longer be permitted to charge multiple penalty fees based on a single late payment or other violation of the account terms (e.g. assessing both a late charge and a returned payment fee).

Q. The credit union conducts credit reviews of its portfolio from time-to-time and sometimes increases the rate charged to selected consumers. Will the rule have any effect on that process?

A. Yes. Each time a creditor conducts a risk review and subsequently increases the rate charged to the consumer, using that same criteria they must again review that consumer's information within at least six months and if appropriate reduce the consumer's rate. 

► EFFECTIVE JULY 1, 2010 — FAQs for Reg Z and Reg E Changes

Regulation Z Changes — Effective July 1, 2010

Q. I heard that open-end lending is changing. Is that true?

A. The regulatory definition will change in such a way that creditors will be prohibited from verifying credit information as a condition of granting subsequent advances under a particular product and any credit not meeting the definition of open-end, would by regulation, be defined as closed-end.

Q. I have always verified credit information when deciding whether or not to make a subsequent advance. Does this mean that I have to discontinue that practice?

A. You may continue the practice, but since the product would no longer meet the definition of open-end it would need to be originated on a closed-end basis, subject to all of the regulatory requirements for that type of credit.

Q. I have always originated loans on an open-end basis and heard that closed-end lending is difficult to administer. Is there any truth to that?

A. No, not at all. In fact, you will probably find it to be much like the process you have become accustomed to when underwriting each subsequent advance.

Q. Won't I need a new and complicated closed-end disclosure?

A. You will need to use a closed-end disclosure, but it is a simple two page document with a limited area on the first page that requires data input.

Q. Can Oak Tree assist us with the new document and provide training on its use?

A. Absolutely. Oak Tree has provided these types of disclosures for decades and they can be obtained in fixed and/or variable rate formats, and in some cases

with a signature-less provision. Contact Oak Tree's Sales Department for details.

Regulation E Changes — Effective July 1, 2010

Q. I heard that we must discontinue paying overdrafts, unless the consumer affirmatively elects to have them paid. Is that true?

A. That is incorrect. The required opt-in applies specifically to charging a fee for payment of non-recurring debit card transactions and ATM transactions.

Q. Does this mean that absent a valid opt-in I can still pay the consumer's transaction if I don't charge a fee?

A. Yes. Financial institutions may still pay non-recurring debit card transactions and ATM transactions as a courtesy. They simply will not be able to charge a fee for doing so, unless the consumer has specifically opted into such a program.


Q. You said that this regulatory change only applies to non-recurring debit card transactions and ATM transactions. Does that mean that the other types of overdrafts are exempt from this requirement?

A. Yes. However, those other overdrafts may be subject to another Regulation's requirements.

Q. Can the opt-in be incorporated into the account-opening disclosures?

A. Strictly speaking, yes. However, in a practical sense, it is necessary to provide the opt-in disclosure on a stand-alone basis in order to ensure that the appropriate parties receive the required disclosures.

Q. Does Oak Tree offer the new opt-in disclosure?

A. Yes. Oak Tree has provided this disclosure for other clients and can do so for you as well. Contact Oak Tree's Sales Department for details. 

► MAKING CHANGES — Margaret Bennett, Account Executive

Since changes seem to be a continuing part of the Regulatory Environment, Oak Tree would like to make Your document changes as simple as possible. It may be as easy as adapting old ideas that have outlived their usefulness to current facts or it may be something that has changed within your Credit Union's policies and procedures. The fact that Oak Tree Business Systems is your custom forms provider puts you on the cutting edge of regulatory updates.


In any event, Oak Tree would like to make this a simple process for Your Credit Union. The *good news* is that, as part of your current annual site license agreement for your documents, Oak Tree does not charge the credit union in making changes to your existing document. We realize that change is the future, so please contact Oak Tree with any questions you may have in making changes. We will provide any assistance necessary to complete your request.

In addition, your Credit Union may be looking at changing your Data Processing System or upgrading your Data Services Platform. Oak Tree will convert your documents to the new format at no additional cost.

Oak Tree will always support one final format as part of your annual site license. If this should be your request, please give Oak Tree as much notice as possible in order to meet your Data Processor's live date.

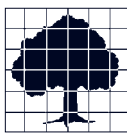
The process is simple:

- Call, fax, or email the requested changes
- Oak Tree will create an order to make the requested changes
- Once any changes are completed at Oak Tree, a proof will be sent via fax or email to the Credit Union for review.
- The Credit Union would make any additional adjustment to the change and send back the Fax Proof Acknowledgment with an approval when complete.
- The approved version will go to our Data Services Department to be forwarded to your Credit Union or Data Processor.

So the next time you're faced with a change, rely on Oak Tree and discover how we can exceed your expectations in completing your request. 

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throughout the year. Then depending on the information obtained a creditor may elect to suspend future advances to a borrower. However, to comply with the regulation such actions must be independent of and not a condition of providing a subsequent advance.

(2) Implement a closed-end solution for all or certain loans. Since Oak Tree has consistently maintained a focus on both open-end & closed-end lending plans, transitioning to a closed-end solution is not complicated. Our closed-end loan program can be developed for standard signature capture, check backer for use with loan proceeds checks or electronic signature in an email format.

With the changes occurring to Regulation Z by July 1, 2010, we understand that many credit unions who operated in an exclusively open-end lending environment are now evaluating multiple options. Our goal in structuring a complete consumer loan package is to ensure your lending programs are established in a manner that is consistent with your policies and ensures compliance with the current regulatory environment. We look forward to working with you during this transition.

For more information on this subject, Oak Tree will be hosting a ReadyTalk conference on May 6 and 20. Space is limited, so please contact Stephanie Foust via phone at 800-537-9598 or email stephanief@oaktreebiz.com to be included in one of these exclusive conferences.



▶ **FINAL RULE RELEASED FOR REGULATION P**

Rod G. Terry, Director Of Product Management

Amongst everything else that happened in 2009, the Federal Reserve Board issued final rules in the latter part of the year that are intended to make it easier for consumers to understand how financial institutions collect and share their information. The intended goal of the Federal Reserve Board is to have all financial institutions provide a disclosure that is "succinct and comprehensible" and that allows consumers to easily compare privacy policies of different financial institutions.

While the final rule may be observed today, financial institutions may continue to use the existing sample clauses for the remainder of 2010, at which time they will need to comply with the new rules on January 1, 2011. The changes can be summarized as requiring usage of the new required model form(s), along with an easily readable font style that is not less than 10 point in size. As a result, the new form's layout and design will expand to an 8½" x 11" sheet of paper that could be two pages in length depending on the financial institution's policy.

If you presently obtain a privacy policy disclosure in a laser format through Oak Tree, you will automatically receive proofs of these disclosures later in the year. If you currently obtain this disclosure in a pre-printed format through Oak Tree, you will need to contact their Sales Department to get things started.

