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Subject: Home Ownership and Equity Protection

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Proposal:	Home Equity Lending Market
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Comments:

I am writing in response to the proposed changes to the Home Ownership and Equity Protection Act of 1994. We are a state non-member bank located in Western Kentucky. We understand the need to provide the best possible product while ensuring that our customers understand the product and protect their home. We appreciate the concerns of the agencies for consumer protection with limited burden to the banking industry. We, also appreciate the opportunity to share our thoughts concerning the proposed changes to HOEPA. Prepayment penalty: We do not believe that prepayment penalties should be restricted by regulation. Our bank is not alone in adopting internally enforced prepayment penalty restrictions, as most financial institutions (FI) place limits and restrictions on their prepayment penalty as a matter of consumer protection and because of competitive strategies all with proper disclosure of the fees. Our prepayment penalties are based on the restriction defined by HB 90 in Kentucky to be assessed no “more than 36 months after the loan closing or which exceed three percent of the amount prepaid during the first 12 months, or two percent of the amount prepaid during the second 12 months, or one percent of the amount prepaid during the

third 12 months after the loan closing." This information is disclosed as part of our early disclosure and our final account agreement in a section specifically title "Prepayment Penalty." We believe that it is not necessary to burden the financial institutions with additional restrictions and disclosures. This burden may cause additional cost to the FI and in turn additional cost to the consumer with minimal benefit since the information is required to be disclosed at application with the early TIL and closing with the final TIL by Regulation Z. We do offer a "no closing cost" Home Equity Line of Credit product, which is our only product with prepayment penalties (the above mentioned restrictions apply, even though we are preempted from state law). The prepayment penalty is only to recoup the closing expenses of the bank for loans that payoff early. We would not be able to offer an affordable, no cost home equity line of credit loan product without assessing prepayment penalties as a method to compensate for our cost. Escrow for taxes and insurance on subprime loans. We do not offer subprime products, however, we do believe that a FI has an obligation to discuss all financial aspects of a mortgage loan with the consumer and this includes requirements by contract for payment of property taxes and maintenance of adequate insurance. We do not believe that requiring mortgage lenders to force a consumer to escrow taxes and insurance is practical or logical, even on subprime lending situations. The Good Faith Estimate and the HUD Settlement statement provide the customer documentation regarding the amount of taxes and insurance costs, so the consumer should be well aware of the tax/insurance liability and expense. Enhanced disclosures would provide minimal to no additional benefit to the customer. The GFE and HUD statement are both tabular and are extremely clear in describing the cost, identifying the item and time. Taxes and insurance premiums, while payment is a requirement for maintaining the good standing of the loan, is not something that the bank controls so it makes no sense to require the FI to be responsible for the estimating obligations. Mortgage lenders are not, generally, in the business of calculating taxes and insurance obligations. We do not believe that additional restrictions or requirements would serve the consumer or the FI, but it could add confusion with misquotes or misrepresentations of premium or tax expense. The effects of adding escrow would be an increase in up front costs to the borrower, as the bank maintains a two month cushion as allowed by RESPA, plus the amount of escrow to equal the months since the last payment. The assessment of these fees at closing could hinder the possibility of home ownership for some individuals. If, however, this proposal would be accepted it should specifically define a "subprime loan" and be clear on when this provision would be mandatory. "Stated income" or "low doc" loans. We would do most of our portfolio loans with stated income but with the same interest rate, because we know our

customers. Most FI do not make loans without understanding the consumer's ability to repay the debt, whether or not it is documented in the consumer's loan file. Lenders at banks our size and within our location truly know the customers, know the places where they are employed, can appropriately approximate income, and understand our customer's financial needs. Adding more paperwork and disclosure is not always the best solution. If a high rate of interest is applied because the loan is based on "stated income," the lenders should provide the consumer with a notice about the adverse rate and provide the consumer with a counteroffer to improve the interest rate. This could be accomplished under the requirements of Regulation B without further regulator requirements. The opt-out process would not work, since most consumers requesting a loan would not provide documentation unless it was required to obtain the loan. In our ever changing world, people want everything yesterday and with minimum hassle, including mortgage loans. Adding additional documentation and disclosures tends to muddy the waters more often than it helps. Financial institutions have multiple disclosure requirements presently for mortgage lending, all combined and properly done, will provide the consumer with the information about all the above noted concerns. Neither the consumer nor the FI want more paper. It is imperative that FI have the ability to provide products to the consumers that meet their needs. What fit twenty years ago, will not do today. Nontraditional and subprime products are indispensable in meeting the mortgage needs of our home owner markets. Too many rules, underwriting restrictions, and disclosure requirements will cause FIs to limit the type and terms of credits being offered. This will limit our out reach to our communities, particularly the low-to-moderate income individual. While there may be a few rogue mortgage lenders, for the most part FIs have the consumer's best interest in mind. Current regulatory requirements appear to be sufficient, if properly executed, to cover most of the disclosure concerns of the consumer advocate. We do not believe that changes to HOEPA in the manner prescribe would provide any benefit to the consumer, but it could prevent the consumer from obtaining the appropriate product to service their needs as a home owner. Thank you for your time and consideration.