

From: Spiro State Bank, Ty Barrett  
Subject: Revision to Escrow Account

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Comments:

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Proposal: Regulation Z - Truth in Lending Act - Revision to Escrow Account  
Requirements for Certain Home Mortgage Loans

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Comments:

Thank you for allowing me to comment on the proposed amendment to the escrow requirements in Regulation Z. I am president of a small community bank with two locations in Eastern Oklahoma. We originate less than 100 mortgage loans each year. We also service all of the loans we make and do not sell any loans. Through this downturn in the economy and the housing market we have maintained a strong residential loan portfolio with no foreclosures and no losses without ever escrowing. I feel this is due to prudent underwriting and just as importantly working with distressed homeowners when they experience a hardship. Establishing escrow accounts for my customers would carry significant administrative and compliance costs to the bank that would have to be passed onto my customers by increased interest rates or other fees. It would be a very positive amendment to exclude small volume community banks from the escrow requirements. When taken as a whole, these small community banks certainly fill a large niche in making home loans that do not meet secondary market requirements. Additionally many community bank customers do not want their banks to sell their home loans. These customers like knowing where and how to make their payments. And if these customers encounter a problem they can go into the bank and speak with the person who made them the loan versus dealing with someone they have never met if they can even find them. The main issue I have with the proposal is the narrow definition of a rural area. We operate our home bank and one branch in small towns with less than 2,500 people and we make a number of our home loans outside the town limits on small parcels or small acreages that would be considered rural. However, LeFlore County, Oklahoma where we operate is located in the Fort Smith, Arkansas MSA so we are technically considered a Metro area. If someone with knowledge were to visit the locations of many of our home loans they would consider them to be rural by most standards. In fact, one of our two facilities is over 80 miles

away from Fort Smith. The road over which you have to pass is a mountainous two lane winding road that is a recognized "Mountain Gateway" by the state highway department. The narrow definition of rural area in the proposal would not exclude our bank from the proposed escrow exemption when in reality that is the market we serve. In my opinion, a better proposal would be to eliminate the rural area requirement or to take a much broader view of the definition. As another commenter suggested, a simpler approach would be if the small volume community bank intends to hold the loan in their portfolio to maturity then the loan should be exempt from escrow requirements. If the lender originates the loan with the intention of selling the loan, escrow should be required. This approach will accomplish the Board's goals without placing undue burden on the many community banks that originate and hold loans to maturity. A regulatory update seminar was recently given by the Federal Reserve Bank in Tulsa, Oklahoma that I attended. The Consumer Affairs Manager from the Federal Reserve giving the presentation on Compliance Issues described escrowing as a "compliance trap" for community banks. After becoming more familiar with the escrow requirements of the regulation, I certainly think he is correct.