



July 22, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1417 and RIN No. 7100-AD75

Dear Ms. Johnson:

The Minnesota Bankers Association (MBA) is a trade group representing nearly 400 Minnesota banks. The MBA membership includes a broad range of banks, from independent community banks to regional banking organizations operating in multiple states. As the champion for Minnesota bankers, we respectfully convey their concerns regarding the proposed rule to implement the ability to pay provisions mandated by the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act of 2010.

The MBA believes the definition of “rural and underserved” in the regulation is far too restrictive. Minnesota has 87 counties and it appears that only 18 of those counties would be considered “rural.” We believe that removing the micropolitan areas from the definition would be appropriate to broaden the number of counties that are considered rural. As the Federal Reserve Bank of Minneapolis is well aware, balloon loans are a small bank product, not just a rural product. The Federal Reserve Board should not overly restrict the definition as it will have a detrimental effect on small banks and their customers across the State of Minnesota.

Balloon loans are a significant product for community banks and their customers. We believe restricting balloon-payment qualified mortgages to those with terms of five years or more is overly restrictive. Three-year balloons are a common and popular product for community banks that should be able to meet the qualified mortgage threshold. These products are not used by community banks to take advantage of customers, nor did they have anything to do with the financial crisis. Loan terms are not, in and of themselves, predatory. Someone in Washington D.C. unfamiliar with balloon loans must have decided that balloon loans are predatory just because they are short term and end with a large payment. The fact is that community banks are not predatory lenders and balloon loans are not de facto predatory. They allow community banks serve their customers and manage



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interest rate risk. Excluding shorter-term balloon loans, such as three-year balloons, seems arbitrary and will lead to less available credit. Significant justification, certainly more than is contained in the proposed rule, should exist before excluding balloon loans of less than five years.

The restriction of credit caused by regulation is of paramount importance to Minnesota's banks. The MBA strongly supports Alternative 1 in the proposed rule which provides lenders with a legal safe harbor. We believe that all qualified mortgages should be immune from private rights of action. The ability to repay standards will result in increased litigation. Debtor's attorneys will certainly use the ability to repay rules to their benefit. Qualified mortgages must have strong protection or the market will restrict even further.

Regarding points and fees, the MBA believes that bank employee compensation should not be included in the points and fees test. Doing so will prevent most loans from meeting the qualified mortgage criteria and result in far more loans exceeding the high-cost threshold. Many community banks strenuously avoid making high-cost loans. Those regulations have already restricted the lending market. Including loan originator compensation in the points and fees test would have a further negative affect on available credit.

We appreciate the fact that the Federal Reserve Board was faced with a difficult task in implementing sections 1411 and 1412 of Dodd-Frank. We believe the Board should do all it can to avoid restricting credit and harming community banks while working within the Dodd-Frank framework. We thank you very much for considering our input on the ability to pay proposed rule. If you have any questions concerning this letter, do not hesitate to call me at (952) 835-3900.

Sincerely,

Tess Rice
General Counsel



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