October 18, 2012

The Honorable Ben Bernanke
Chairman
The Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20429

Re: High-Cost Mortgage and Homeownership Counseling Amendments to the Truth in Lending Act (Regulation Z) and Homeownership Counseling Amendments to the Real Estate Settlement Procedures Act (Regulation X)

Dear Sir:

I am writing today as a community banker and a strong believer in the nation's community-based, consumer-oriented system of small and mid-sized financial institutions. I feel that I can speak on behalf of all community bankers when I say that it is our mission to bring financial services to consumers in a manner that provides the public with affordable financial products that serve their needs. I would ask you to keep in mind that community banks across this nation, unlike many of the larger and less consumer-oriented institutions, have remained fiscally strong and responsive to their customer's needs throughout the past few years.

Due to my strong belief in the statements I made above, I would like to ask the Bureau to bear in mind the possible negative impact of the regulatory requirements it is writing to implement the changes to the Truth in Lending Act. I believe the rules could seriously restrict the types of credit available to borrowers in the mid-sized and rural communities served by my institution and numerous others like it. My concerns center around three issues: 1) the prohibition of balloon payments for "Qualified Mortgages," 2) the expansion of fees included in the definition of "Finance Charge," and 3) the requirement for lenders to ascertain if a home has been sold within the past 180 days and obtain a second appraisal at the lender's expense.

I am asking the Bureau to reconsider the prohibition of balloon-payment loans as a Qualified Mortgage. These products work well for our customers because they allow us to extend mortgage credit to borrowers who may not qualify for long-term, fixed-rate loans. We find that our customer base in our more rural markets is more likely to not qualify for the traditional 30-year mortgage types of loans than more affluent borrowers in larger population centers. A major impairment for many rural mortgage loan applicants in obtaining long-term, conventional mortgages is the value of the home they are attempting to purchase. In many of our depressed rural markets, average housing values are in the $25,000 to $50,000 range. No conventional lender is interested in purchasing smaller loans such as those that would need to be extended on homes in this price range. In addition, our rural markets typically do not have sufficient comparable sales to support the stringent appraisal standards mandated by the secondary market for 30-year loans. However, we are able to meet the needs of customers in these depressed, rural markets by extending shorter-term, balloon-payment loans in a way that protects our institution against interest rate changes without having to incur the additional documentation and operational costs of offering adjustable-rate mortgages.

To meet the apparent general goals Congress had in drafting the legislation of ensuring that lenders verify a borrower's ability to repay a loan, I would like to ask that the Bureau consider the approach currently taken with regard to balloon-payment loans that qualify as Higher-Priced Mortgage Loans (HPMLs). Such loans can be extended as long as the lender verifies the borrower's income and employment information through third-party documentation and develops a reasonable expectation that the borrower will have sufficient income to refinance the balloon payment at maturity. Our institution does this by requiring a relatively lower debt-to-income ratio at the time of the HPML's origination. Should interest rates rise by the date the refinancing of the balloon payment occurs, the resulting possible rise in the debt-to-income ratio would not be enough to prohibit refinancing. I'd like to ask the Bureau to allow a similar type of "interest rate shock" approach for Qualified Mortgages. Without such

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an approach, I fear that we will not be able to meet all of the extensive documentation requirements that the new regulations will impose on loans that do not meet the definition of a Qualified Mortgage and will have to avoid making such loans.

Secondly, I ask the Bureau to strongly consider the additional compliance burden that will be caused by the expansion of fees included in the finance charge. I understand the Bureau's desire to simplify the disclosure process. But I don't think an "all fees in or all fees out" approach is accurate. My understanding of Regulation Z is that the finance charge has always been intended to be the cost of credit. Some fees that the Bureau now plans to place into the finance charge are just not a cost of credit. They are fees the consumer would pay anyway in a cash transaction. For example, how can the Bureau consider fees paid to an attorney to prepare title documents and to record land records as a cost of credit? These fees would be payable by a purchaser of a home even if no loan was obtained. I just don't see how those types of fees can meet the definition of a finance charge.

As the Bureau has recognized, artificially expanding the finance charge and APR will significantly increase the number of loans covered by HOEPA. I can tell you that smaller community banks such as mine have a policy of not extending loans that are covered by HOEPA due to the additional, burdensome disclosure requirements. Expanding the coverage of HOEPA will reduce the availability of credit to borrowers at a time when the U.S. economy desperately needs available housing credit.

Finally, I feel the additional appraisal-related requirements are impractical. If the Bureau implements an expansion of the APR, more loans will qualify as "Higher Risk Mortgage Loans" which are covered by these new appraisal rules. Does the Bureau really intend for financial institutions to have to ascertain on each of this expanded number of loans whether or not the home offered as collateral was sold in the last six months? How does the Bureau believe institutions can practically do this without a significant increase in costs? Institutions will have to develop methods to ascertain sales histories and will have to increase staff. This will only increase the cost of credit to consumers and/or reduce the availability of such credit.

Please understand that our relationships with our customers are the basis for our existence. We community bankers know that building strong and lasting positive relationships with our customers is the only way to help build and support our communities and to prosper as a financial institution. We want to extend mortgage credit to our customers in a convenient manner that they can best afford. We are not the type of high volume, national mortgage lender it appears these regulations may have been primarily directed to. Yet we are being asked to incur regulatory burdens that could be crippling to us and the smaller communities we serve. This expansion of the regulatory burden will add to the cost of credit, delay the timeliness of credit for our customers, and possibly prohibit us from even offering much needed mortgage products to the communities we serve.

I appreciate your providing me with the opportunity to comment on this matter and I hope the Bureau will consider the issues I have raised in drafting the final rules.

Sincerely,

Eric M Chambless
Senior Vice President
Community Bank, Coast