

From: Union Bank, Inc., Tim Aiken
Subject: Revision to Escrow Account

Comments:

Date: Mar 15, 2011

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

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Name: Tim Aiken

Affiliation: Union Bank, Inc.

Category of Affiliation: Commercial

Address:

City:

State:

Country: UNITED STATES

Zip:

PostalCode:

Comments:

March 15, 2011 Board of Governors of the Federal Reserve System ATTN: Jennifer J. Johnson, Secretary 20th Street & Constitution Ave., NW Washington, DC 20551
RE: Docket No.R-1406; RIN No. 7100-AD65 Dear Ms. Johnson: The Federal Reserve Board's approach regarding mortgage loan escrow requirements for taxes and insurance, and exemptions from the said requirements, should be simplified as follows: 1. If the lender intends to hold the loan in portfolio and to maturity, the loan should be exempt from escrow requirements. 2. If the lender originates the loan with the intention of selling the loan, escrow should be required. This simplistic approach will accomplish the Board's goals, without placing undue burden on the many community banks that originate and hold loans to maturity. That being said, I respectfully offer the following comments to the proposed rules: Definition of "Rural" Areas The proposed definition for "rural" areas should be expanded. The proposed use of ERS "urban influence" codes, should be expanded to include all so-called "noncore" counties, which would include codes 4,6,7,9,10,11, and 12. The utilization of a county's urban influence code is, by its nature, arbitrary. A county, as a whole, may be deemed to have a certain level of urban influence, due it being "adjacent" to a metro area, and/or having a town of 2,500 residents. However, if you view particular geographic areas within a single county, in many cases you may find those areas "rural" by any standard. Therefore, in order to make sure that use of an arbitrary definition, such as the proposed ERS "urban influence" codes, doesn't affect credit availability in rural areas within a particular county, the definition should be broadened to lessen this probability. As an example: Wetzell County, West Virginia is designated as Code 6. Under the proposed rule, the county would not be deemed "rural". The western side of the county, along the Ohio River, is where the majority of the county's population base lies. The eastern side of the county by contrast is extremely rural. The Town of Hundred (approximate population 298) is located in the extreme eastern edge of

Wetzel County. Residents in this area must commute approximately one (1) hour or more, one way, over sometimes treacherous roads, to seek health care, cultural events, access to larger retail outlets, employment, and to find alternative sources of credit. There are many similar locations in counties across the U.S. , where the arbitrary use of a data code in order to define an area as "rural" (or not) might affect the availability of credit in that area, should the escrow exemption not be available to the bank or creditor that services that area. **Creditor and Affiliates Do Not Maintain Escrows** Creditors were required to implement escrows for certain higher-priced mortgage loans, effective April 1, 2010. Many creditors, including many community banks that did not previously employ mortgage loan escrows under any circumstances, were forced to either: a) implement escrows, or b) exit the residential mortgage business. Rather than deny mortgage loan credit availability to their communities, many community banks chose to implement mortgage loan escrows, despite the cost and burden. The proposed rule for the exemption, that "the creditor must not maintain an escrow account for any mortgage loan they currently service", is thus inherently unfair to banks that chose to continue to service their communities and implement escrows, despite the burden and cost. The proposed rule actually would reward creditors that made a conscious decision to continue originating higher-price mortgages, and also decided to NOT comply with the April 1, 2010 regulation to require escrows (assuming they would meet the other proposed exemption requirements). In order to address this inherent unfairness, the proposed rule for the exemption should be revised to be retroactive to the initial escrow requirement date, as follows: "To obtain the exemption, the creditor must not maintain an escrow account for any mortgage loan they currently service, that was originated prior to April 1, 2010." Or as an alternative, simply exclude from the exemption limitation any mortgage loans held by the creditor and for which escrows were established, originated between April 1, 2010 and the effective date of the proposed rule. Creditors such as community banks, that chose to continue to originate and hold higher-priced mortgage loans and also complied with the April 1, 2010 escrow requirements, despite the burden and cost, should NOT be unfairly punished for following the law. Many community banks would meet all of the other requirements for the escrow exemption, only to be non-exempt simply because they chose to comply with the April 1, 2010 requirement. I appreciate the opportunity to comment. Sincerely, Tim Aiken - Union Bank, Inc.