October 25, 2010

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket No. OP–1388

Dear Ms. Johnson,

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on the Federal Reserve Board's (FRB) Proposed Rule on Regulation Z as it applies to the annual percentage rate (APR) threshold used to determine whether a mortgage lender is required to establish an escrow account for property taxes and insurance for first-lien jumbo mortgage loans.

While the proposed change is specifically required by the Dodd-Frank Act, CSBS believes the FRB should explore greater exemptions for institutions which originate and hold all the credit risk. CSBS, along with the National Association of Consumer Credit Administrators (NACCA) and the American Association of Residential Mortgage Regulators (AARMR), made a similar suggestion in response to the FRB's 2008 Regulation Z proposal. In the 2008 comment letter, the organizations wrote, "CSBS, AARMR and NACCA support the Board's proposal to require escrow for higher priced loans, as well as the ability for a consumer to opt-out of this requirement twelve months after consummation of the loan. In addition, we believe insured depository institutions that portfolio the mortgage loan should be exempted from this requirement."

Institutions which portfolio mortgage loans have a greater incentive to ensure a borrower's ability to repay and fund the total cost of homeownership, including property taxes and insurance. This dynamic needs to be considered as rules and standards are determined. Federal policy should not significantly alter the economics and desirability for traditional banks to make residential mortgage loans in their communities. To that end, we strongly recommend the FRB conduct field hearings to hear from community banks and local officials to more fully understand the impact the dramatic changes in mortgage finance are having on a traditional bank's ability to originate mortgage loans. As more banks are forced out of this market, there will be a significant impact on credit availability and economic development in rural areas.

Thank you for the opportunity to comment.

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