

Board of Governors of the Federal Reserve System
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United States
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Chris Barnard

16 July 2013

- Truth in Lending Act (Regulation Z)
- Appraisals for Higher-Priced Mortgage Loans – Supplemental Proposal

Dear Robert deV. Frierson.

Thank you for giving us the opportunity to comment on your Proposed rule: Appraisals for Higher-Risk Mortgage Loans – Supplemental Proposal.

The Board, Bureau, FDIC, FHFA, NCUA and OCC (collectively, the Agencies) are proposing to amend Regulation Z, which implements the Truth in Lending Act (TILA), and the official interpretation to the regulation. A Final Rule implements a provision added to TILA by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) requiring appraisals for “higher-risk mortgages.” For certain mortgages with an annual percentage rate that exceeds the average prime offer rate by a specified percentage, the Final Rule requires creditors to obtain an appraisal or appraisals meeting certain specified standards, provide applicants with a notification regarding the use of the appraisals, and give applicants a copy of the written appraisals used. The Agencies are proposing amendments to the Final Rule implementing these requirements; specifically, the Agencies are proposing exemptions from the rules for: (1) transactions secured by existing manufactured homes and not land; (2) certain “streamlined” refinancings; and (3) transactions of \$25,000 or less.

I strongly supported the Final Rule,¹ which would act to improve reliability, robustness and accuracy in lending decisions; reduce default risk; increase standardization and transparency in the appraisal process; and improve overall market efficiency. The Final Rule will benefit both covered persons and consumers. In particular, individual consumers infrequently engage in real estate transactions, which are generally very high value transactions. It is therefore vital that consumers are able to rely on robust and accurate property valuations when making price determinations.

¹ See the Final Rule, 78 FR 10368, and my comment letter thereon.

Supplemental proposals

I support the proposed definition of “business day” to mean all calendar days except Sundays and certain legal public holidays. This will align timing requirements for internal regulatory consistency, and facilitate compliance. I also support the proposal to exempt certain “streamlined” refinancings, as described,² from the rules.

However, I have concerns with the proposal to exempt extensions of credit of \$25,000 or less, indexed every year for inflation, from the rules. I would suggest that this threshold is too high, as this level could lead to significant monetary risk for consumers, particularly low- to moderate-income consumers. The risk could be particularly onerous for repeat extensions of credit. Therefore I would recommend that the threshold should be re-examined, and I would propose a maximum lower threshold of \$10,000 for such extensions of credit.

Yours sincerely

C.R.B.

Chris Barnard

² In particular, the regular periodic payments under the refinance loan must not result in negative amortization, cover only interest on the loan, or result in a balloon payment; all of these features increase a loan's risk to consumers, primary and secondary mortgage markets.