April 20, 2004

RE: EGRPRA Comments

I wish to thank the agencies for the opportunity to comment on the consumer protection regulations as a result of the Economic Growth and Regulatory Paperwork Reduction Act.

I would like to comment on the Home Mortgage Disclosure Act (HMDA) and Flood Regulations.

HMDA

To begin, I believe the need to maintain a public file on site is outdated since this information is now available online. I think a statement at each location, including the main office, with an address of where a request for a copy can be sent should suffice. This would also eliminate the need to add the current year data on a quarterly basis. Most financial institutions have never received a request to view or obtain a copy of the public file.

Secondly, I would like to comment on the reportability of loans. It has been stated by the regulators that HMDA is one of the most violated regulations during examinations. I therefore don't feel that increasing the number of reportable fields from 19 to 34 is the answer to addressing this concern. I feel the types of loans reportable should be readdressed and that some reportable loans should be eliminated, which would hopefully increase the validity of the HMDA data overall. To explain, the definition of "refinance" was recently changed beginning with the 2004 reportable data. To be deemed a refinance, the new loan, and the loan it is paying off, must be dwelling secured. I feel the intent of the regulators was to make this easier, however it has made HMDA more burdensome. Loans that have multiple pieces of collateral, including a dwelling, when the intent of the loan is unrelated to the dwelling, or any dwelling, are now reportable. A bank that is primarily a commercial lender who may have loans to small business owners who have additionally secured the loan with their home, may now find they are reporting numerous loans that were not deemed HMDA reportable in the past. In addition, if the home was taken as abundance of caution, the loan could be reportable under the Community Reinvestment Act (CRA), but now that it is HMDA reportable, it cannot be reported on CRA. The refinancing definition has completely eliminated the "purpose" or "intent" of the loan. I feel this change will dramatically skew the HMDA data, and possibly the CRA data.

I think the true intent of HMDA is to protect consumers and therefore feel that any loan for a business purpose should not be reportable. This would eliminate the reporting of multifamily properties and homes purchased for rental property. In addition, I believe the reporting of withdrawn loans is unnecessary. The request

was withdrawn by the applicant prior to the financing being approved or denied by the financial institution, therefore this data is serving no significance in determining a discriminatory practice or whether we are meeting the credit needs of our community.

Flood

There are many areas of the regulation that need clarification or interpretation, perhaps by an additional Q & A. Although I realize that it is impossible to address every scenario, I do feel there are some items that should be addressed.

To begin, in the past year our bank was informed by external auditors that we needed to compare the flood zone listed on the insurance to the zone listed on the determination to ensure they are the same, if they are not, we are to request that the flood zone on the insurance be changed. This requirement is not part of the regulation, but a new interpretation, although it is not written anywhere. Although I understand the importance for the zones to match, it is out of the financial institution's control to force the agent to make this change. There are some agents who, like financial institutions, use a third party vendor to perform the flood determination. If the agent has obtained such a determination and it indicates a different zone than the bank's determination, they are not willing to change the zone on the insurance. Likewise, the bank is not willing to accept their determination because they do not have a relationship with this vendor and there is no recourse for the bank should the determination be incorrect. Furthermore, there is no life of loan tracking for the bank. As a result, the only thing the bank can do is document the file accordingly.

When a loan is new and secured by property in a flood zone, or property in a flood zone is being added to an existing loan, there is no thirty-day waiting period for flood insurance. However, we have found this is not the case when the flood insurance is up for renewal and the premium is paid thirty days late. In cases such as this, the customer does have a thirty-day waiting period regardless of whether they have a loan. This is outlined in the insurance agent's manual available on the FEMA website, and we have confirmed this is true with our regional office of the NFIP. I believe the thirty-day waiting period should be eliminated on delinquent policy renewals. Often times, we have found that the policy was renewed prior to the 45-day time limit outlined in our notice to the borrower that was sent when their flood insurance expired. We have been informed that the financial institution is not able to force place flood insurance on borrowers that have an existing policy.

To expand on that last statement regarding force placement of flood insurance, we have also been informed that the financial institution is unable to force place a small amount of insurance on a customer that is not properly covered, again because we can not force place insurance if the borrower has an existing policy. Instead, we must work with the agent in trying to get the additional coverage

placed, which we have found cannot always be accomplished in a timely manner. I think the rules under the Mortgage Portfolio Protection Program should be amended to allow financial institutions to force place the additional coverage.

Our regulator has stated that if a current appraisal is not available then we must rely on the most recent hazard insurance policy to determine the value of the dwelling, again this is not written within the regulation. I feel that the regulation should provide guidance as to how old an appraisal can be before it is deemed outdated, our financial institution has chosen to use one year. The regulation requires that flood insurance be tracked to ensure that proper coverage remains in place, therefore, we are reviewing the flood insurance at least once a year at it's renewal, and sometimes more often if the loan is modified or renewed. However when using the hazard insurance we have found that we are constantly recalculating the required amount of flood insurance because the hazard insurance increases every year due to an automatic inflationary increase, as a result we are continuously requiring many of our customers to increase their flood insurance every year. This is an unanticipated expense to our borrower and can cause difficulty in our relationship, not to mention the administrative cost the financial institution endures. I feel the flood insurance should not have to be increased from the original required amount needed, unless the loan amount is increased.

It has further been communicated by our regulator that on commercial property we can combine the building coverage and the contents coverage when determining the proper amount of flood insurance for a loan that is secured by both, however if the loan is secured by the building only, we can refer to the building coverage only. I feel this is inconsistent, especially since the regulation provides guidance on how to determine building coverage; the building should be determined independently of the contents on a loan that contains both as collateral.

The regulation should provide guidance on how to address buildings that the borrower intends to tear down. We have had situations in which the borrower purchased property that was in a flood zone, within one week of the loan the property was torn down. It is burdensome for the borrower to go through the time and expense of obtaining flood insurance for temporary situations such as this, however the regulation provides no exceptions. The NFIP stated that if the building had no value and this is reflected in the appraisal, then insurance would not be required, however, our building had value. I recommend that an exception be placed for buildings that will be torn down within an allotted time frame from the closing date of the loan.

The regulation needs to clarify what is acceptable coverage for condominiums when a Residential Condominium Building Association Policy (RCBAP) is in place. The FEMA handbook "Mandatory Purchase of Flood Insurance Guidelines" outlines that a unit owner can acquire supplemental building

coverage that will apply only to that part of a loss that exceeds eighty percent of replacement cost of the RCBAP. Is this to be interpreted that it is acceptable that the financial institution need only to confirm that the RCBAP is for at least eighty percent replacement cost rather than one hundred percent replacement cost?

My final comment pertains to the Notice to the Borrower. I think the initial notification prior to the loan closing is all that is reasonably needed and that the notification at time of renewal, extension, or increase in the loan amount should be eliminated. The borrower is informed prior to closing that the property securing the loan is in a flood zone and flood insurance must be obtained. Because the bank is required to track this flood insurance, the borrower will be informed via a separate notice should their insurance expire, that they have forty-five days to obtain coverage or insurance will be forced placed. As a commercial lender, most of our loans to a business are crossed collateralized and are renewed on an annual basis, but do not necessarily have the same maturity date; therefore, the borrower is continuously being sent notices that the property is in a flood zone. They have indicated this is somewhat of a nuisance, and for our financial institution we have found it to be administratively burdensome.

Thank you for your consideration.

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