

MEDINA VALLEY STATE BANK
P.O. Drawer M
Devine, Texas 78016
Phone (830) 663-2801
Fax (830) 663-5719

February 21, 2008

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Proposal: Regulation Z - Truth in Lending
Document ID: R-1305
Release Date: 12/18/2007

Dear Ms. Johnson:

After reviewing the proposed rule to amend home mortgage provisions of Regulation Z, it is our belief that the passage of this rule will disenfranchise many consumers as they attempt to obtain financing especially in the under \$50,000 range for purchase loans and improvement loans on primary residences.

In the rural areas of Texas and I am sure in other parts of the Nation, there are homes that still sell for amounts under \$50,000 and there are certainly home improvement loans requested that are well under \$50,000. Community Banks such as ours fill a niche by being willing to originate these smaller home purchase and home improvement loans, since most mortgage lenders are not willing to make the smaller loans due to a lack of acceptable fee income.

We do not sell our loans on the secondary market. We keep and service the loans that we originate. Our real estate loan program offers a 15-year amortized loan with a 5-year balloon. We do not charge any points, origination fee or other loan fees on our real estate loans; although, normal third party closing fees for title insurance, attorney fees, appraisals, etc. are paid by the borrower. We require between 15% and 20% cash down payment from the borrower on a purchase loan. The interest rate that will be charged on these loans is going to exceed the three percentage points on first liens and the five percentage points on subordinate lien loans. First lien loans are going to be priced closer to five to five and one-half percentage points above the yield on Treasury securities of comparable maturity and six to six and one-half percentage points on subordinate loans.

We do not escrow for taxes and insurance on any of our real estate loans and the thought of having to implement an escrow system and dealing with all of the regulatory issues is certainly not appealing.

State and federal regulators through the years have encouraged us to make loans in our community that promote homeownership and that provide funds for home improvements, but the passage of the proposed rule to amend Regulation Z will most likely cause the opposite effect.

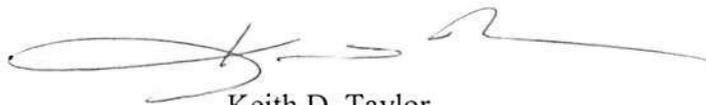
We will make, combined, around ten to twelve purchase money and home improvement loans of under \$50,000 in an average year. If we choose to no longer offer loans that would be considered "higher-priced mortgages" under the proposed rule then ten to twelve families probably will not be able to purchase a first home, add a room or replace a broken septic system.

In the whole scheme of things, ten to twelve loans that may not get made seems pretty insignificant except in a small community and to the ten to twelve families that will not receive a loan.

I have a difficult time seeing how the loans that I have described above could be considered sub-prime or "higher-priced mortgages". I advocate for an exclusion from the proposed rule to amend Regulation Z for all loans that are \$50,000 and under that are secured by the borrower's primary residence. The exclusion of loans under \$50,000 would still provide protection for consumers that will continue to get true sub-prime loans, and it will provide an incentive for a bank like Medina Valley State Bank to continue to serve our customers that need smaller loans.

Thank you for your consideration of our opinions.

Yours truly,

A handwritten signature in black ink, appearing to read "Keith D. Taylor", with a long horizontal flourish extending to the right.

Keith D. Taylor
Vice President