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Comments:

I am President of a community bank operating in Eastern Oklahoma. I am also a former bank examiner with the OCC. Residential loans comprise a large percentage of our loan portfolio. We have a wide range of customers, and we have home loans to small business owners in our area, salaried and hourly workers, as well as farmers. We have strong credit quality and have experienced very few foreclosures. While I commend the Federal Reserve for taking a stronger stance on some of the abuses in the mortgage lending industry, there are a few proposed provisions which concern me and the effects they may have on our borrowers and our bank's ability to compete for mortgage loans. First is the requirement to escrow insurance and taxes. There are many reasons why a customer would balk at this requirement. Many customers save for these expenses in an interest bearing account. As insurance and property taxes have increased over the years, this can be a sizable portion of lost savings interest. Some customers fund their annual payment of insurance and taxes with income they receive annually such as bonuses and tax refund checks. The cash flow for some small business owners, self employed people, and farmers is seasonal and fund these larger annual expenses as they receive their income. From my own personal experience, lender's struggle with changing insurance premiums and property taxes. I myself was not very happy when a lender I used for my first home had to keep changing my escrowed payments on fixed rate loan and I had to send in additional money for taxes because the escrow account was not correct. I would rather have a more predictable payment and keep insurance and taxes separate from my mortgage payment. From the bank's perspective and for many community banks that do not escrow insurance and taxes there will be a cost to this requirement in employees, training, software, and administration of these accounts that will eventually be passed on to our customers. Secondly, I agree that collateral based lending is not the best way to make a home loan, but the requirement of verifying sources of income is not always

available for small business owners, self employed workers, and farmers. Many do not keep good records and many would tell you during the application process that their tax returns do not reflect their true income. This is when as a community banker knowing-your-customer and their prior experience with the bank comes into play. Finally, I would caution lawmakers from trying to make lenders take a “cookie cutter approach” to home lending. There are numerous community banks out there like ours making good loans that do not sell their loans in the secondary market and must be flexible to meet our borrowers needs.