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Comments:

FRB Response Proposal:Regulation Z - Truth in Lending [R-1305] March 17, 2008 Jeff Davis Bank & Trust Company Jennings, LA This is our response to your request for comments to the proposed changes to Reg Z which purports to address problems in the mortgage lending arena. All of our data will come from FDIC: Financial Report 30 for year-end 2007 unless otherwise stated. As a community bank with total assets of $476,646,000, we serve an area in Southwest Louisiana. We had a net interest margin in 2007 of 4.02%. We believe that if you poll your safety and soundness examiners, you will find that for a community bank to survive and prosper it needs a net interest margin somewhere between 4% and 5%. If that were applied to your proposal, 100% of our first and second mortgages would qualify as “higher-priced mortgages”, even though our rates on 1-5 year first mortgage (balloon notes with 1-30 year amortizations) currently run from 5.50% to 6.00%. No one in our bank can believe that those rates (the APR would, of course, be slightly higher) could qualify as a “higher-priced mortgage”. Our cost of funds in 2007 was 2.38%. Add 4.00% to that and to achieve a 4% net interest margin, we need to have an average rate of 6.38% on our loans (higher actually, due to the lower yields on investments). The FRB: H15 Release has the five-year treasury as of March 7, 2008 at 2.45%. Your proposal would make any five-year first mortgage with an APR over 5.45% a “higher-priced

mortgage". Every first mortgage loan made in our bank will be a "higher-priced mortgage". We currently do not require escrow accounts on any of our mortgages. No one can remember a single instance in which non payment of taxes or insurance was the cause of a foreclosure. To properly administer escrow accounts will require our bank to hire more personnel with the additional expense to be absorbed by "?". In all probability, the fact of having to escrow will drive up rates on all mortgage loans. There is no point in being only five basis points over the "higher-priced mortgage" definition. Of course, the range for "higher-priced mortgages", both first and subordinate liens, does not begin to factor in flat or inverted yield curves. What about a steep yield curve? It would not be difficult to find a time when a 6%-5 year first mortgage would have been a "higher-priced mortgage" and a 30-year 10% first mortgage would not have been a "higher-priced mortgage". We believe that the lowest practical rate range would be 5% over for a 1st lien and 7% over for a second lien. However, we are convinced that no threshold will work unless constantly changed to reflect market conditions. If changed constantly, it becomes an administrative nightmare and practically useless. Just think of an inverted yield curve, a five-year first lien at 6% is not a "higher-priced mortgage", a thirty-year first lien at 6% is a "higher-priced mortgage". A flat yield curve and five-year first lien at 6% is a "higher-priced mortgage"; a 30-year first lien at 6% is a "higher-priced mortgage". What about a person with a $500,000 paid for home and $600,000 year income that uses a 1st lien to borrow $20,000 to install a swimming pool? If the five year fixed rate of 6% is over the threshold for "higher-priced mortgages", do we escrow insurance and taxes for someone using the mortgage to gain income tax deductibility? We could go on but our point should be made. Peer group data for all commercial bank assets $300M to $500M closely reflect our data both as to cost of funds and net interest margins. The peer groups net charge offs to loans (not just lien secured) was .28% in 2007. This leads us to believe the agencies are requiring banks that do not have a "sub-prime" problem, and do not make "sub-prime" loans, to conform to regulations that are intended for "sub-prime" lenders. We keep these loans in house and, as a result, have every interest in maintaining high underwriting standards. We have no problem with requirements to document income, sources of repayment and loan to appraisal values. We do it now on all of our loans. We don't impose prepayment penalties or pyramid late fees. These are simply sound banking practices for which we are examined every year. Finally, I urge the Board to not try to fix what's not broken in the mortgage lending arena. Fix what is broken. According to the Board, in addition to "creative mortgage products", one of the underlying causes of delinquencies and defaults in the residential mortgage market is loose underwriting. The Board stated, "Underwriting standards loosened in large parts of the mortgage market in recent years as lenders – particularly nondepository institutions, many of which have since ceased to exist – competed more aggressively for market share" (I underline for emphasis). Please don't burden responsible mortgage lenders with additional

requirements (that cost real dollars) because of problems created by irresponsible segments of the industry. These costs must be absorbed by the lenders or passed on to consumers, neither of which fixes anything.