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April 8, 2008

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

Re: Proposed Rule; Request for Comment regarding Proposed Amendments to Regulation Z; Docket No. R-1305; 73 Fed. Reg. 1672 (January 9, 2008)

Dear Ms. Johnson:

The PNC Financial Services Group, Inc. ("PNC"), and its principal subsidiary bank, PNC Bank, National Association ("PNC Bank"), both of Pittsburgh, Pennsylvania, appreciate the opportunity to comment on the proposed amendments to Regulation Z ("Proposal") issued by the Board of Governors of the Federal Reserve System ("Board").

PNC is one of the largest diversified financial services companies in the United States, with $139.0 billion in assets as of December 31, 2007. PNC engages in retail banking, institutional banking, asset management and global fund processing services. Its principal subsidiary bank, PNC Bank, has branches in the District of Columbia, Florida, Indiana, Kentucky, Maryland, New Jersey, Ohio, Pennsylvania and Virginia. PNC also has three other subsidiary banks, which are located, and/or have branches in, Delaware, Maryland and Pennsylvania.

I. General Comment

PNC supports the Board's intention to protect borrowers from abusive or predatory mortgage lending practices, and we are pleased to have the opportunity to submit a comment letter. We note that any changes to Regulation Z are certain to have a significant impact on all financial institutions engaged in consumer lending, and we urge the Board to consider carefully the specific comments offered below.

II. Specific Comments

A. Early Mortgage Loan Disclosures (Section 226.19)

Currently, only residential mortgage transactions subject to the Real Estate Settlement Procedures Act ("RESPA"), namely purchase money mortgage transactions, are subject to the requirement that Truth in Lending Act ("TILA") closed-end disclosures, including the Annual Percentage Rate ("APR") and other material disclosures, be delivered not later than 3 business days after the receipt of an application. The Board proposes to extend the early disclosure requirement for residential mortgage transactions to other types of closed-end mortgage transactions secured by a consumer's principal dwelling, including mortgage refinancings, home equity loans, and reverse mortgages. The proposed disclosure would be required to be delivered three days after the receipt of an application, and before the consumer pays a fee to any person, other than for the originator to obtain information on the consumer's credit history.

The Board expects that this part of the Proposal would impose additional costs on creditors, some of which may be passed on in part to consumers. The Board seeks comment on whether the benefits outweigh the costs, or other costs incurred in compliance that commenters could identify.

PNC believes the benefit of requiring the early disclosures for ***all*** closed-end real estate secured loans is greatly outweighed by the costs of such a requirement for a number of reasons.

Initially, it should be clear that these early disclosures could not be given accurately without having certain required pieces of information. PNC's lending activity focuses on home equity installment loans ("HEILs"), which, although closed-end loans, are not currently subject to such a requirement. HEILs, generally speaking, are not marketed with the same diversity of products and fees found in the purchase money market. Purchase money mortgage loans are offered with a variety of options, such as ARMs and up-front points that may reduce the interest rate. HEILs are normally simple, single disbursement loans that amortize fully over the term of the loan, and the only option is the term of the loan. Pricing for purchase money loans is based primarily on the borrower's credit bureau report, and Fannie Mae dictates the rates lenders are authorized to charge, whereas HEIL pricing is influenced by a number of other factors, including loan to value ("LTV") limits, which may not be known within three days of receipt of an application. PNC may not be able to gather the information within the timeframe required, and therefore could not give accurate disclosures even if it wanted to do so. If required to give the disclosures before we have sufficient information to make a decision, we would probably have to give standardized "worst case" scenario estimates, which would result in inaccurate disclosures, normally with a higher APR than the customer

Additionally, we believe that new rules regarding early disclosure requirements for all closed-end loans should be formulated in conjunction with the Department of Housing and Urban Development's ("HUD") pending initiative to reform the RESPA. HEILs are currently subject to disclosures required under the RESPA, including the Good Faith Estimate ("GFE") of closing costs, which must be given within three days of receipt of an application. The GFE must contain an estimate of all costs the customer can expect to incur at or before closing, so the customer already has the important information necessary to make an informed decision. The RESPA proposal modifies the GFE and will effectively require much of the same information that is currently required in the early TILA disclosures. Requiring the same information to be contained in both sets of disclosures is duplicative and likely to be confusing to borrowers.

Finally, we estimate the cost and time required to create, maintain and deliver the early disclosure to be substantial in comparison to the minimal benefit for consumers.

B. Prohibited Acts or Practices in Connection with Higher-Priced Mortgage Loans

To address perceived abusive subprime lending practices, the Proposal would provide additional protection to a new category of consumer residential mortgages called "Higher-Priced Mortgage Loans." A Higher-Priced Mortgage Loan would be defined as a consumer residential mortgage loan with an APR greater than three percentage points over comparable Treasury securities, or five percentage points over Treasury securities for subordinate liens. Lenders making Higher-Priced Mortgage Loans would be subject to extensive new underwriting and documentation standards. Specifically, lenders would be required to determine and document a consumer's repayment ability and would be required to establish an escrow account for property taxes and homeowners insurance.

We offer input below on a number of issues upon which the Board has solicited comment.

i. HELOC Exclusion

The Board seeks comment on whether it is appropriate to exclude HELOCs from coverage under the definition of Higher-Priced Mortgage Loans.

We agree with the Board that all Home Equity Lines of Credit ("HELOCs") should be excluded from coverage under the Proposal. Regulation Z already provides extensive regulation of HELOCs, regardless of interest rate, and creditors must comply with the existing restrictions and requirements.

ii. Higher-Priced Mortgage Loan Threshold Coverage

The Board seeks comment and solicits data on the extent to which the threshold would cover the "alt-A" market, and on the benefits and costs, including any potential unintended consequences for consumers, of applying any or all of these protections to the "alt-A" market.

PNC feels that the existing Home Owner's Equity Protection Act ("HOEPA") thresholds adequately establish a category of high-cost mortgage loans and that an additional rate threshold would add a layer of complexity that will discourage lenders from making loans that are currently considered "moderate" risk. Lenders will be forced to eliminate or reduce access to credit because of the aversion to being associated with loans that are labeled as "high-priced," and would certainly consider tightening lending standards even further to avoid being perceived as such. These products compete for capital with other lending products, and lower risk products are increasingly more attractive for financial institutions.

In the event that a Higher-Priced Mortgage Loan threshold is established, we agree with the Board that the APR of a loan is the best way to determine whether mortgage loans warrant additional consumer protections. However, we are concerned that the proposed regulations for Higher-Priced Mortgage Loans would unintentionally include a significant percentage of the prime and alt-A market, imposing additional costs for a large portion of the mortgage market with little benefit. We estimate that, under the Board's proposed threshold, a significant portion of PNC's home-equity loans would fall into this category, given the current Treasury securities rates in relation to the rates demanded by the marketplace for residential mortgages and home equity loans. Treasury securities rates are not the most appropriate index upon which to base the Higher-Priced Mortgage Loan thresholds, since such a large number of mortgage loans are made with terms in excess of twenty years.

If the Board pursues its intention of creating a defined category of Higher-Priced Mortgage Loans, we suggest that the Board base the definition on a more relevant index, such as the Conventional Mortgage Rate published by the Federal Reserve on the H-15 Statistical Release, plus two percentage points for residential mortgage loans, and four percentage points for subordinate liens. This index is more reflective of the current mortgage market than Treasury securities, more closely correlates to the cost of funds incurred by creditors and, as such, it would not unnecessarily include those loans that financial institutions consider "prime loans" in the category of Higher-Priced Mortgage Loans.

iii. Requirement to Verify Income and Assets Relied Upon

The Board proposes that creditors be prohibited from making a Higher-Priced Mortgage Loan without verifying the income and assets it relied upon to make the loan, through the use of third party documents that provide reasonably reliable evidence of income or assets (such as W-2 forms, tax returns, payroll receipts).

The Board seeks comment on whether, and in what specific circumstance, the proposed rule would reduce access to credit for certain borrowers, such as the self-employed, who may have difficulty documenting income and assets, and requests comment on whether the rule could be made more flexible without undermining consumer protections.

PNC strongly believes that the requirement to verify all income and assets relied upon would result in increased costs to creditors, which would be passed on to consumers in the form of additional fees, higher interest rates and longer time periods between an application and loan decision. Consumers would have to wait longer to find out if a loan application is approved if verification documentation is not readily available. Generally, self-employed borrowers would suffer the greatest costs due to the lack of W-2 forms and payroll receipts. PNC's current underwriting practice and credit policies do not require income verification until certain internal thresholds are met. We feel strongly that this is a complex decision best left to experienced underwriters and each institution's credit policy. In some cases, we may not need income or asset verification through third party documentation or information when we are satisfied with the information on an application given the nature of a borrower's occupation and our personal knowledge of a particular customer.

iv. Escrow Accounts

The proposed rule would require lenders to establish an escrow account for Higher-Priced Mortgage Loans that are secured by a first lien. Creditors would be permitted, but not required, to allow borrowers to opt out of the escrow account twelve months after the consummation of the loan.

The Board is proposing to make escrow accounts mandatory on first-lien Higher Priced Mortgage Loans, and seeks comment on whether the benefits of this requirement outweigh the costs.

PNC strongly opposes a requirement to make escrow accounts mandatory for such loans.

Responsible lenders should consider an applicant's ability to pay taxes and insurance when evaluating creditworthiness, and consumers should be informed about the costs of homeownership, including the requirement to pay property tax and insurance premiums. To ensure that consumers are able to pay the obligations associated with a mortgage, federally regulated financial institutions are required to qualify borrowers for loans based on principal and interest payments, as well as the taxes and insurance for the property. However, this does not mean that escrow accounts should be mandated for all Higher-Priced Mortgage Loans, especially first lien HEILs that arise as a result of the refinancing of a purchase money mortgage. Such a requirement would impose a significant development cost and an ongoing costly compliance burden on institutions that do not escrow taxes and insurance.

PNC does not escrow due to the costs and compliance requirements associated with these accounts. The Proposal would exclude HEILs in subordinate lien transactions, but not those that are in first lien position. HEILs, generally, are made to more sophisticated borrowers who are familiar with the requirement to pay taxes and insurance, and a HEIL transaction may take place long after the purchase money mortgage was consummated. A first lien HEIL often arises when borrowers refinance a purchase money mortgage once substantial equity is built.

A study of our own portfolio reveals that approximately 51 percent of PNC's HEILs are in first position. We estimate the escrow servicing cost function to be between 25 percent and 33 percent of our base loan servicing costs, which are estimated to be 25 basis points for each loan, resulting in an annual escrow servicing cost between $2.5 million and $3.2 million dollars per year for our current portfolio. We estimate that the effort involved in adding an escrow processing capability to our system would involve the work of up to seven people working for up to eighteen months to develop business requirements, prepare designs and accomplish programming. The initial development cost would be in the range of $6 million dollars, and the cost to support the escrow programs on an annual basis could surpass $3 million dollars a year.

Further, the Proposal would permit borrowers to opt out of the escrow requirement after the first year of the loan. Creating and maintaining this functionality, at the costs described above, for a loan that may only involve 12 months of escrow would be a massive project. and the costs would certainly be passed on to borrowers in the form of higher rates and an increase in servicing errors.

Based on these cost estimates, we recommend that all HEILs, including first-lien non-purchase money transactions, be excluded from the escrow requirement, regardless of whether the loan ultimately is considered a Higher-Priced Mortgage Loan.

C. Effective Date

The regulation would have an effective date of that October 1 following by at least six months the date of final release.

The Board requests comment on whether 6 months would be an appropriate implementation period for the proposed rules, and, specifically requests comment on the length of time creditors may need to implement the Proposal.

We urge the Board to provide creditors with sufficient time to implement the changes that are adopted. We suggest a two-year period for mandatory compliance, due to the magnitude of the proposed changes.

III. Conclusion

Thank you very much for the opportunity to comment on this proposal. We strongly recommend that the Board consider these comments in finalizing the Proposal.

If you would like to discuss any aspect of this letter, please do not hesitate to call me.

Sincerely,

James S. Keller

cc: Michael D. Coldwell
Federal Reserve Bank of Cleveland

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