SchoolsFirst™
FEDERAL CREDIT UNION

November 18, 2010

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

Re: Docket No. R-1366

Dear Ms. Johnson,

SchoolsFirst Federal Credit Union serves school employees in Southern California. We have over 440,000 Members and over $8.0 billion in assets. SchoolsFirst FCU is pleased to have the opportunity to comment on the Federal Reserve Board's interim final rule implementing provisions of the Mortgage Disclosure Improvement Act of 2008 (MDIA), which is part of the Truth-in-Lending Act (TILA).

We would like to address several specific issues relating to the interim final rule which are of particular concern:

Implementation Period

The Board has implemented numerous final rules amending its lending regulations over the past few years, many of those applying specifically to mortgage lending. By way of example, including this rule, there are presently 5 Board final rules which will need to be implemented by mortgage lenders in the next 4-6 months. For financial institutions, this is in addition to the rules promulgated by their primary regulator.

In addition to these final rules, there is currently a Board proposal out for comment which, if finalized as written, will impose tremendous operational burdens on mortgage lenders by requiring a complete overhaul of the manner in which disclosures are provided.

Finally, but of equal significance, is the fact that the Dodd-Frank Act will require a number of very substantial rulemakings which, in many cases, will duplicate and/or overlap with rules that have already been implemented. This creates a challenge for financial institutions in that they run the risk of creating unintended consequences in their automated systems due to the continuous changes. Therefore, time must be taken to test and re-test systems to ensure that errors do not occur; errors which generate consumer confusion and which are ultimately counter-productive.

To address the regulatory burden faced by mortgage lenders, we believe that the most efficient approach to the issuance of new rules would be have rules affecting the same regulation to issue concurrently with one another, as opposed to in a piecemeal and often incongruous fashion. This is especially true when the Board proposes a rule which will need to be updated a short time later, as is the case with the Dodd-Frank Act.

We believe that a mandatory compliance date of January 30, 2011, is unrealistic for this interim final rule, particularly given the fact that changes to the interim rule may still take place when the rule is finalized in December. With many automated system vendors implementing a "programming freeze" during the holiday months, it will be virtually impossible for many lenders, such as smaller credit unions with limited resources, to have the changes required by this rule in place by the January 30^{th} date.

We believe that a more prudent route for the Board to take would be to delay finalizing this interim rule until the Board determines the overlap between the requirements of the Dodd-Frank Act and those of this rule. At that time, the Board could issue a single rulemaking incorporating the requirements of Dodd-Frank, thus avoiding the issuance of multiple (and potentially conflicting) rules.

Sections 1032(f), 1098(2)(A), and 1100A(5) of the Dodd-Frank Act expressly require that overlapping sections of RESPA and TILA be integrated. This interim final rule does nothing to effectuate said integration; in fact, it would have the effect of creating another overlapping, non-integrated disclosure which will need to be rehashed within 18 months through the implementation of the Dodd-Frank Act.

As an alternate approach, we would respectfully request that the Board delay the mandatory compliance date of this rule for a period of at least 4 (four) months from the current date of January 30, 2011. This will give provide time for lenders to ensure that their systems are compliant with the regulation.

Despite statutory requirements, the Board is empowered to delay implementation of the rule by Section 105 of TILA, which provides that the implementation of a regulation which makes changes to a required disclosure "*shall have an effective date of that October 1 which follows <u>by at least six months</u> the date of promulgation...*" (Emphasis added).

<u>Payment Summary Tables</u>

There are several features in the proposed payment summary tables which we would like to point out are incongruous with the mortgage lending process and should be revised.

<u>Estimated Taxes + Insurance (Escrow) Field</u>

When utilized in conjunction with a subordinate or junior lien, the requirement that the "Estimated Taxes + Insurance (Escrow)" field be completed by using a dollar amount completely ignores the outlay on the senior lien. Unless the same lender holds all liens on a property, providing a tax and impound account payment will confuse borrowers into thinking that the payment on the subordinate loan is greater than it actually is, since the borrower is presumably already paying taxes and insurance under the senior lien.

We believe that a less confusing result would be achieved by clarifying that lenders on subordinate liens may designate taxes and insurance as "not applicable" (N/A) on the payment summary tables. This will provide more accurate information to consumers and eliminate confusion.

Additionally, the requirement to disclose the taxes and insurance in the "maximum during first five years" and "maximum ever" fields in the adjustable-rate payment summary table should be eliminated. These amounts will be impossible to determine in advance since it is nearly certain that the costs of taxes and insurance will increase that far into the future. Forcing lenders to estimate amounts here will do nothing but provide borrowers with misinformation and erroneous amounts; obviously not the intent of the regulation.

Furthermore, the requirement to provide borrowers with tax amounts in the summary tables ignores the fact that taxes and assessments can vary greatly among the different municipalities. For example, in our lending region there are older, more established cities which have a lower tax base and no special assessments. However, many cities which were chartered in the past 15-20 years feature a higher tax base and substantial special assessments.

On purchase transactions, many of our Members identify a property in one city and apply for a loan based on the identified property, but later change their mind and select a property in a different city to complete the purchase. Under this proposal, we would be forced to provide the Member with a completely different set of summary tables when this scenario occurs. If the cities happen to have a broad disparity in tax base or additional assessments, the secondary disclosures would be drastically different and, again, elicit confusion in the consumer.

We would also like to point out that the information being proposed in the summary tables is duplicative to the information which is presently required to be disclosed on the Fannie Mae Uniform Residential Loan Application (Form 1003) which is utilized in the vast majority of mortgage loans originated in the United States. In fact, the 1003 application contains even more information than is required in the summary tables in that it requires that subordinate payment information and homeowners' association fees be disclosed.

If the objective of the Mortgage Disclosure Improvement Act is truly to improve the disclosure process for consumers, we cannot fathom how providing a borrower with even more duplicative disclosures would effectuate the objectives of the legislation. Despite the fact the Form 1003 disclosures are not set apart on a separate document as the proposed summary tables would be required to be, they are situated in a tabular format not unlike the one proposed. The information can be easily gleaned from a even a cursory review of the 1003 document, which requires the borrower's signature. It defies logic to believe that a consumer of average intelligence would not be able to extrapolate the disclosed information contained in the Form 1003.

Maximum First Five Years Field

In the case of adjustable rate mortgages, the result of limiting entries in this field to the "first five years" of the life of the loan is that increases occurring on a loan that is fixed for the first seven or ten years (i.e. 7/1 or 10/1 ARM) will not be disclosed to the borrower in the tabular format. Instead, this information is relegated to a notation beneath the table and then only when the initial rate is an introductory rate and not one that adjusts based on an index.

We believe the better approach to be one which requires all rate adjustments for the life of the loan to be disclosed in the same manner that the Board is requiring for loans containing a negative amortization feature (Model Form H-4(H)). This requirement has been in place for years in loans insured by the Federal Housing Administration (FHA), which require specific tabular disclosures of a borrower's payments for each adjustment period. Such an approach would provide consumers with more detailed, accurate information on which to base a loan decision.

Inversely, we believe that an exception to providing borrowers with the payment summary tables should be made for loans that are insured by FHA. The information provided on the disclosures is duplicative to that on the FHA disclosures and therefore would merely create an additional burden on borrowers filtering through multiple disclosures. Furthermore, depending on the loan product, the forms may appear conflicting to borrowers since there may be a disconnect between the amounts provided on the two documents due to the more detailed calculations on the FHA disclosure.

Alternatively, should the Board elect not to require the disclosure of each increase for the life of the loan we believe that the "maximum during the first five years" should be revised to require the maximum rate for the first ten years of the loan. The ten year period would be sufficiently lengthy to cover the initial adjustment period of the vast majority of mortgage loans. It would also effectively address the Board's concern with requiring only the disclosure of an initial adjustment; that lenders would circumvent the spirit of the regulation by structuring loan programs to feature a small initial adjustment (which would be required to be disclosed) followed by a much more substantial adjustment (not disclosed).

By allowing for a ten year period, the economic incentive for an unscrupulous lender to structure a loan product in this manner would be minimized due to the lengthier period of the initial adjustment.

In conclusion, we believe that this interim final rule should not become effective until it can be reconciled with the integration requirements of the Dodd-Frank Act. Alternatively, mandatory compliance with the rule should be extended by a minimum of four months from the current date of January 31, 2011 in order to ensure that all lenders will be able to bring their operations into compliance with the substantial requirements of the rule. Finally, the Board should make the clarifications discussed above in order to resolve the incongruities in the Payment Summary Tables and to avoid confusion on the part of lenders as well as consumers.

SchoolsFirst Federal Credit Union appreciates being given the opportunity to comment on this interim final rule. Please feel free to contact me if I may be of further assistance.

Sincerely,

John Barton

John Barton
Senior Vice President, Lending
SchoolsFirst Federal Credit Union

cc: Credit Union National Association (CUNA)
California/Nevada Credit Union League (CCUL)