From: Bank of Greeley, Michael E Rockers

Proposal: 1417 (RIN 7100-AD75) Reg Z - Mortgage Repayment Standards

Subject: Reg. Z

Comments:

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Comments:
Thank you for the opportunity to comment on the proposed ability-to-pay rules. The Bank of Greeley is located in Greeley, Kansas. Greeley is a farming community of 325 people situated in Anderson County, population 8100. The county seat of Garnett, population 3400, is ten miles away. The Bank of Greeley has total assets of $34,000,000 with a loan portfolio of $20,500,000. Included in the portfolio are $6,000,000 in first-lien residential real estate loans, $5,600,000 in agricultural real estate loans and $3,350,000 in other loans to farmers. All loans in the portfolio were originated by the Bank of Greeley; the Bank sells no loans. Our real estate loans, whether they are residential, agricultural or commercial, are generally written using 3-year balloons, with the payment based on a 15, 20, 25 or, occasionally, a 30 year amortization period. We use 3-year balloons as an interest rate risk management tool. Our certificate of deposit liabilities total $16,250,000 and all except
$320,479 are written for terms of three years or less. We rely on local deposits; we have no brokered deposits, and no non-deposit borrowed funds. No loan in our portfolio has any prepayment penalty other than a $7.50 minimum interest charge applicable to consumer loans (non-real estate). We have never utilized credit reports in our credit decisions. The proposed rules provide four options for complying with the ability-to-repay requirement. We write balloon loans so two of the four options would be unavailable to us. Upon passage of the Dodd-Frank Act we assumed that, as a small community bank operating from one location in a rural area, the Bank of Greeley would be able to continue writing balloon loans under the fourth option as a small creditor operating predominantly in a rural or underserved area (hereafter, the "small rural creditor provision"). We assumed this provision was explicitly written into the statute with community institutions like ours in mind. However, under the proposal that defines a county as "rural" if the USDA-ERS category is UIC 7, 10, 11 or 12, the Bank of Greeley would not qualify under the small rural creditor provision, since the UIC for Anderson County is 4. This disqualification has serious consequences as all balloon loans would then have to be written under the general ability-to-pay standard. We do not believe this reflects the intent of Congress. We respectfully request that the proposed definition of rural areas should be expanded to include all so-called

"noncore" counties, which would include UIC codes 4, 6, 7, 9, 10, 11 and 12. Alternatively, it should be possible to qualify under the small rural creditor provision if an institution is under a certain size and has agricultural loans, real estate and non-real estate, that exceed some specified percentage of its portfolio. It is certainly difficult for us to accept that a $2,000,000,000 institution could qualify under the small creditor provision and we cannot. The Board proposes to require that balloon loans written under the small creditor provision have minimum five-year terms. The proposal acknowledges that the small rural creditor provision in the Dodd-Frank Act "... is evidently meant to accommodate community banks that originate balloon loans to hedge against interest rate risk." Less than 2% of our certificate of deposit liabilities have terms in excess of three years. Requiring a five year minimum term on balloon loans under the small rural creditor provision will certainly increase the difficulty of managing interest rate risk. We would respectfully ask that consideration be given to whether a three year minimum term would be appropraite for balloon loans under the small rural creditor provision. If the Bank of Greeley is not eligible under the small rural creditor standard, we are left with the general ability-to-pay standard. We have never utilized "widely accepted governmental or non-governmental underwriting standards" to evaluate a consumer's repayment ability, at least not in formulaic terms, nor have we used explicit debt-to-income ratios. We suspect that, as with many small community banks that lend based more on personal knowledge about the customer than on formulas, we probably have in our portfolio a handful of performing balloon real estate loans that may not meet "widely accepted underwriting standards," whatever they are. We hope that the final rules recognize that previous satisfactory performance on a maturing balloon loan has predictive ability and should be factored into the "ability-to-pay" criteria. Shoe-horning preexisting, maturing balloon loans into monthly debt-to-income ratios that meet "widely accepted underwriting standards" may on a rare occasion present some dilemmas for the lender. Additional guidance on the interplay between reasonably expected income and current employment status would be helpful. It is not unusual for us to receive an aplication, or for a ballon loan to
mature, at a time when the applicant is seasonally unemployed (e.g., a construction worker in winter) or is between construction jobs. We presume that lack of current employment does not by itself require denial of an application if reasonably expected income, based on the personal employment history of the applicant, indicates sufficient future income to repay the debt; an explicit acknowledgment of that in the final rules would be helpful. Since we do not use credit reports, additional guidance on the use of means other than credit reports to verify credit history would be appreciated. This is our first-ever comment on proposed rules; the final rules could in several ways negatively impact our ability to continue to make consumer real estate loans. We appreciate the opportunity to comment. Thank you. Sincerely, Michael E. Rockers President, Bank of Greeley