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Subject: Revision to Escrow Account

Comments:

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Proposal: Regulation Z - Truth in Lending Act - Revision to Escrow Account
Requirements for Certain Home Mortgage Loans
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As a community banker, my main beef with the way this has gone down, is not that we must escrow for most loans (which means all loans), but that we have to do it because of the label of "higher-priced mortgage loans". That label does several things, none of which are good: (1) it labels a bank making an HPML as a "high priced mortgage lender", simply by comparing the pricing to a prime loan. The prime loan becomes such due to an unfair advantage of the secondary market loan system over the community bank via a government guarantee. The value of that 100% government guarantee is 300 basis points. So why is the government arbitrarily using 150 basis points to determine HPML? (2) It could be that the borrower has a lower credit score, or a tighter cash flow or the lender a slightly higher cost of funds, or a higher loss experience in the market, and the appropriate pricing for the credit is higher than a prime loan. Does this mean that the loan should be labeled as high priced? (3) In a community bank, we have many commercial borrowers, but very few that qualify for the "New York Prime Rate". Does that mean that these borrowers are bad, sub-prime or high risk for the bank. No. Nor should loans to these commercial customers be label as "higher-priced. (4) The label is erroneous in its attempt to identify loans by lenders who are taking advantage of riskier or un-sophisticated borrowers. Perhaps the label could be changed to "non-prime mortgage loans" means loans to borrowers who are (a) not borrowing a large amount, (b) with a large down payment, and (c) with an 825 credit score. This label is just a bad idea. We will continue to escrow for all mortgage loans when it makes good business sense, but the label is just a bad bureaucratic idea.