

GARRISON STATE BANK & TRUST

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October 12, 2012

JENNIFER J JOHNSON
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
20TH STREET AND CONSTITUTION AVENUE NW
WASHINGTON DC 20551

Re: Docket no. R-1443
RIN 7100-AD90

Dear Ms Johnson:

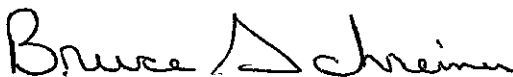
Garrison State Bank & Trust is concerned about the Proposed Rulemaking on Appraisal Requirements for Higher-Risk Mortgages. We are a small community bank with assets of \$98,000,000 located in rural central North Dakota. We are relied on by our customers to help them with financing purchases of homes. While we do have a program to finance some home purchases, we need to finance a majority of the homes on a conventional basis. My concerns are as follows:

1. The Average Prime Offer Rate is tied to a Freddie Mac index. I feel that the Prime Offer Rate should not be tied to a Freddie Mac index, but should be some national average of conventional real estate rates. If you are doing loans that are compatible with the secondary real estate market, your interest rate is very similar to the Freddie Mac index. If you are doing loans that do not fit the secondary real estate market, you have to finance them using your own funds. Most small community banks do not have an option of selling these small balance loans or loans that do not meet national appraisal standards due to lack of comparable sales to the secondary market. We need to service our customer and we have to price them based off of our cost of funds to insure we have an adequate interest rate spread. We try to maintain a 4.00% net interest margin to maintain profitability and build Capital as suggested by FDIC. Since we are funding these loans with our funds and not secondary market funds, I feel that the POR is not calculated correctly at this time. Therefore, I think that the first change that should be considered is how the Average Prime Offer Rate is calculated. A "transaction coverage rate" would be acceptable if it was properly calculated. The transaction coverage rate needs to take into account the long term anticipated cost of funds for these types of loans as well as an adequate spread to maintain profitability and Capital growth. Our rural setting has a lot of loans that are under \$100,000.00 and do not meet the secondary market standards. We do not consider them high-risk as they are just typical house loans for our area. It is unfair to have a set of rules based off of large metropolitan areas and apply them to rural areas like ours.

2. Most of our loans that fall into the Higher-Risk Mortgage category are small dollar home loans. We do a market analysis on these properties as most of them are under \$100,000.00 deals and we are not required to have a certified appraisal on these properties. We have found that we can do a market analysis and be just as accurate as an appraisal would be and save our customers some fees. If the proposed rule goes in as written, we would not only have to have a certified appraisal on the property, if was previously sold within the last 180 days we would have to have a second appraisal. This would certainly not be a benefit to our customers if we added more cost to their loan. An example of this would be if an individual purchased a rundown house and remodeled it in a period of less than six months and then sold it again. The sales price of course would be higher than what he paid for the house do to his remodeling expenses and time. This situation would require two appraisals at a cost of approximately \$1,500.00 to the buyer. If the loan was under \$100,000.00, we would consider using a market analysis, which would cost the customer \$200.00. As you can see from this example, this actually will increase the cost of the transaction to the consumer and be of no benefit to either the consumer or the bank. Again, it is unfair to have a set of rules based off of large metropolitan areas and apply them to rural areas like ours.

Please take into consideration these comments as you proceed with this issue. Thank you for your time.

Sincerely,



Bruce Schreiner
Executive Vice President