

From: Northwest Credit Union Association, John E. Trull
Proposal: 1443 (RIN 7100 AD 90) Higher Risk Mortgages
Subject: Reg. Z - Interagency appraisal requirements for higher-risk mortgages

Comments:

Date: Oct 17, 2012

Proposal: Appraisals for Higher-Risk Mortgage Loans [R-1443]
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Your comment: Robert dev. Frierson
Secretary of the Board of Governors
Federal Reserve System
20th Street and Constitution Ave NW
Washington DC, 20551

Subject: Appraisals for Higher-Risk Mortgage Loans; RIN. 7100-AD90

Dear Mr. Frierson:

On Wednesday, Sept. 5, 2012, five agencies published a notice of proposed rulemaking regarding appraisals for higher-risk mortgage loans. The rulemaking was initiated in response to statutory requirements set forth in the Dodd-Frank Act. The rule applies to mortgages where the annual percentage rate (APR) exceeds the average prime offer rate (APOR) by 1.5% for first liens, 2.5% for first lien jumbo loans, and 3.5% for subordinate-lien loans. The Northwest Credit Union Association (Association) appreciates the opportunity to respond to the multi-agency proposal.

General Comments The Association commends the National Credit Union Administration (NCUA), Consumer Financial Protection Bureau (CFPB), Treasuries Office of the Comptroller of the Currency (OCC), Federal Reserve Board (FRB), and Federal Finance Housing Agency (FHFA) on their collaborative and approach to requirements for appraisals for higher-risk mortgage loans. General Concerns The Association has concerns about the timing of this proposed rule and asks that the agencies re-open the comment period once the definition of qualified mortgages, APR, and Transaction Coverage Rate (TCR) have been finalized by the CFPB. The Association feels that without the definition of a qualified mortgage, which is exempt from this rule, and without definitions for APR and TCR, which will also impact the applicability of the rule, we cannot accurately determine the cost of implementation or scope of the proposed rule. The Association also believes Congress intended that FIRREA title XI requirements would only apply to the subset of higher-risk mortgage loans that are already covered by FIRREA (i.e. federally related transactions with a transaction value greater than \$250,000 not otherwise exempted from FIRREA's appraisal requirements). Regulatory consistency makes sense and reduces the overall cost of compliance. Finally, the separate statutory definition for high-priced and

high-risk mortgages is confusing. Exemptions The Association recognizes Congress and all five agencies that collaborated on this rule for wisely exempting qualified mortgages, reverse mortgages, and loans secured solely by residential structures. Additionally, we support an exemption for construction loans and bridge loans identified in the proposed rule published in the Federal Register as additional types of loans that may need to be exempted from this rule. Of particular importance to credit unions are the bridge loans. Usually secured by the existing home, a bridge loan provides financing for the new home (often in the form of the down payment) or mortgage payment assistance until the consumer can sell the existing home and secure permanent financing. Bridge loans normally carry higher interest rates, points and fees than conventional mortgages, regardless of the consumer's credit worthiness, and therefore should not fall under the proposed rule. Specific Concerns The Association believes that the anti-flip provision, which requires a second appraisal on properties being sold within 180 days at a higher price, should not apply to credit unions. The provision will make it cost-prohibitive for many institutions to offer high-risk mortgages. Credit unions have not been widely implicated in flipping scams and should not be penalized for the actions of other industry participants. The Association encourages the agencies to use their authority to exempt a class of loans from the additional appraisal requirement to:

1) Fully exempt credit unions from this provision; or 2) Exempt higher-risk mortgage loans made in rural areas where finding two independent appraisers may be difficult and cost prohibitive, and sales of properties acquired by inheritance where a property sold within 180 days is likely due to exigent circumstances; and/or 3) Exempt a 25% price increase from this provision, which would ultimately curtail flipping scams, which is the intent of the provision. The Association recognizes the anti-flip provision is a statutory requirement, but the agencies have broad discretionary power in applying this provision. The Association urges the agency to take a conservative approach, applying this provision to the industry participants that created the need for the provision. Conclusion We recognize the statutory basis for the proposed rule and commend the collaboration amongst the different agencies in writing this rule. However, we have serious concerns about being unable to properly assess the total scope and impact of this rule because of the lack of definition around key terms. The Association asks the agencies to consider: 1) Reissuing the rule once the definitions of key terms have been finalized;

2) Applying this rule to a subset of loans already covered by FIRREA as Congress intended; 3) Broadening the exemptions to include construction and bridge loans; and 4) Exempting credit unions from the anti-flip provision. Finally, the Association requests that the agencies consider extending the implementation date to at least July 2014 to allow credit unions adequate time to prepare for and implement the changes necessary to comply with the final rule. Thank you for the opportunity to comment on this issue. We would be pleased to answer any questions you may have. Respectfully, John Trull Director of Regulatory Advocacy Northwest Credit Union Association