

Qualified Mortgage Rule Will Jeopardize Access to Credit

On behalf of the 7,000 community banks represented by the Independent Community Bankers of America (ICBA), thank you for convening today's hearing titled: "Qualified Mortgages: Examining the Impact of the Ability to Repay Rule." We appreciate this opportunity to submit this statement for the record. Reform of the qualified mortgage/ability-to-repay ("QM") rule is a key plank of ICBA's Plan for Prosperity: A Regulatory Relief Agenda to Empower Local Communities.

Balloon Mortgages Play Essential Role in Rural Communities

Community banks are responsible mortgage lenders that did not participate in the abuses that contributed to the financial crisis. Community banks help borrowers in rural communities where non-traditional loans such as balloon mortgages are prevalent due to the unique nature of rural properties. These loans are not eligible to be sold into the secondary market and are kept in portfolio, which gives community banks a vested interest in the quality of these loans and allows them to work out a solution directly with the borrower if repayment problems arise. In addition, these loans often meet the regulatory definition of "higher priced mortgage loans." Because the loans cannot be securitized they must be funded through retail deposits which include higher cost certificates of deposits, and this results in a higher interest rate. The regulatory definition is heavily weighted toward the pricing that Fannie Mae and Freddie Mac set based on their ability to access capital and funding markets that are not available to community banks. In addition, in today's historically-low interest rate environment, it is more likely that a reasonably-priced loan will meet the Federal Reserve's definition of "higher priced."

QM Rule Does Not Adequately Protect Community Bank Balloon Mortgages

While the CFPB's QM rule allows balloon loans made by small creditors that operate predominantly in rural or underserved areas to be qualified mortgages, the Bureau's definition of "rural" is too narrow and assumes an entire county is either rural or non-rural, which is inherently inaccurate. As a result, too many communities are denied rural status and unnecessarily cut off from access to credit. When a balloon loan does not receive QM safe harbor protection, the lender is exposed to undue litigation risk. Many community banks are not willing to assume that risk and will exit the mortgage lending business.

Community Bank Qualified Mortgage Survey

Because of the significance of the QM rule to community bank mortgage lending, ICBA recently conducted the Community Bank Qualified Mortgage Survey to gather data on the impact of the CFPB's new rule. The survey, which is attached to this statement in full, found that provisions for balloon-payment mortgage loans and rural community banks in the new rule need to go

further to adequately protect the customers of many Main Street community bank lenders. In particular:

- Among the 75 percent of respondent community banks that currently make balloon-payment mortgage loans, less than half (46 percent) would qualify for the rule's provision for balloon mortgages.
- For respondent community banks that consider themselves to be rural banks, 44 percent do not qualify as "rural" under the rule's definition.
- Among the community banks that do not qualify for the balloon exception, most are disqualified primarily on the basis of the definition of "rural" (43 percent).
- Respondent community banks hold an average of 64 percent of originated residential mortgage loans in their portfolio for the life of the loan. The majority of respondent banks (52 percent) hold at least 80 percent or more of the loans originated for the life of the loan.
- Most respondents (64 percent) indicate they make higher-priced mortgage loans and provide escrow accounts for them (as required by federal regulation).

Attached to this statement is a state-by-state map of rural county designations. Members of this committee may be surprised at the rural county designations within their own states and concerned that many areas of the state are not covered.

ICBA is encouraging the Bureau to expand the definition of rural to include all counties outside metropolitan statistical areas and all towns with fewer than 50,000 residents. ICBA is also encouraging the Bureau to extend the safe harbor conclusive presumption of compliance for community bank mortgage loans held in portfolio with annual percentage rates up to the higher of the average prime offer rate plus 3.5 percent or the community bank cost of funds plus 4 percent, subject to the Home Ownership and Equity Protection Act threshold.

A Clean Fix is Needed

However, ICBA is pressing for a clean solution, rather than complex and unbalanced rural designations requiring tortuous analysis by the CFPB. Our preferred solution relies on the natural incentive of lenders to ensure that loans held in portfolio are affordable to the borrower and to work with the borrower should they encounter difficulty in repayment.

ICBA's Plan for Prosperity solution to this new regulatory threat is simple, straightforward, and will preserve the community bank lending model – safe harbor "qualified mortgage" status for community bank loans held in portfolio, including balloon loans in rural and non-rural areas and without regard to their pricing. When a community bank holds a loan in portfolio it holds 100 percent of the credit risk and has every incentive to ensure it understands the borrower's financial condition and to work with the borrower to structure the loan properly and make sure it is affordable. Withholding safe harbor status for loans held in portfolio, and exposing the lender to litigation risk, will not make the loans safer, nor will it make underwriting more conservative,

it will merely deter community banks from making such loans in the many counties that do not meet the definition of rural and where a bank's cost of funds results in "higher priced mortgages."

The CLEAR Relief Act

ICBA thanks Representative Blaine Luetkemeyer, a former community banker, for including a provision in the CLEAR Relief Act (H.R. 1750) that would accord qualified mortgage status to mortgages originated and held in portfolio for at least three years by a lender with less than \$10 billion in assets. ICBA strongly supports the CLEAR Relief Act because it contains this provision in addition to other key mortgage and non-mortgage provisions of the Plan for Prosperity, and we encourage this committee to consider it.

Thank you again for the opportunity to submit this statement for the record. ICBA looks forward to working with this committee to reform the QM rule to properly recognize the importance to our rural economies and housing market of balloon loans originated by community banks and held in portfolio.

Attachments

- **Community Bank Qualified Mortgage Survey**
- **State-By-State Rural County Designation Maps** (blue counties are rural; yellow are non-rural)

One Mission. Community Banks.

Community Bank Qualified Mortgage Survey

May 9, 2013



INDEPENDENT COMMUNITY
BANKERS of AMERICA

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Community Bank Qualified Mortgage Survey: Summary of Findings

ICBA conducted a survey to gather data on the impact of the accommodations for community banks in the CFPB's Qualified Mortgage/Ability to Repay rule. ICBA requested information on community banks' residential first-lien mortgage lending activities for 2012.

ICBA distributed the survey to its membership between February 7 and February 14, 2013 and requested that the survey be directed to the member of bank staff best prepared to answer questions on the topic. ICBA received 380 responses, a response rate of approximately 8%.

For the purposes of our analysis, respondent community banks were selected for peer groups based on their responses to questions on their asset size and the geographic areas served.

Key Findings

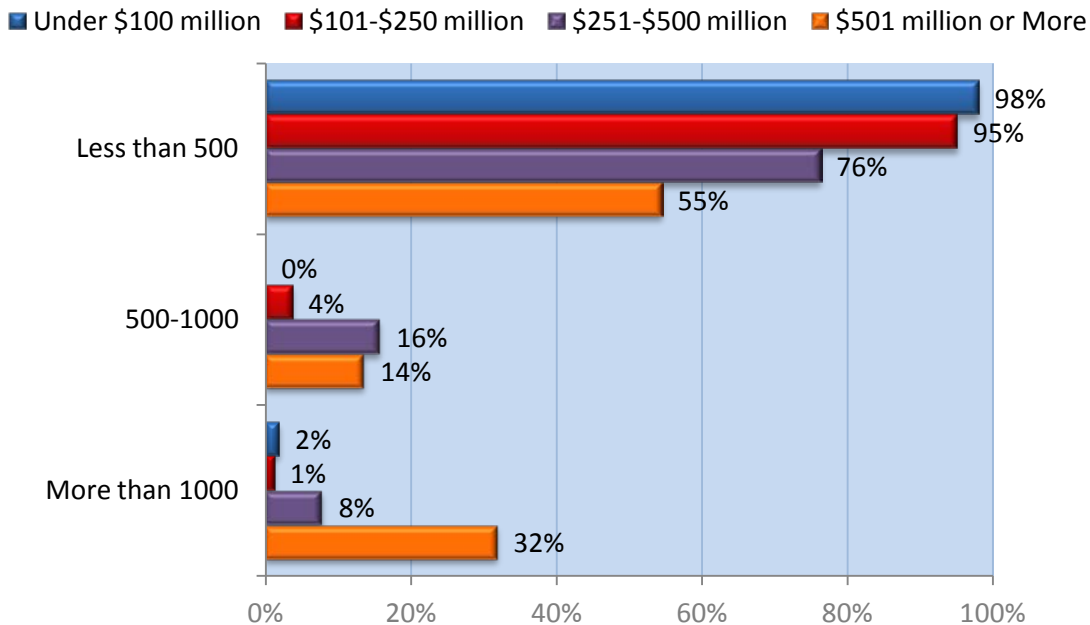
- **Among the 75% of respondent community banks that currently make balloon mortgages, less than half (46%) would qualify for the balloon mortgage exception to the Qualified Mortgage/Ability to Repay rule.**
- **For respondent community banks that consider themselves to be rural banks, 44% do not qualify as "rural" under the rule's definition.**
- **Among the community banks that do not qualify for the balloon exception, most are disqualified primarily on the basis of the definition of "rural" (43% overall) or limited by a combination of the 500 loan annual originations cap and the definition of "rural" (9% overall).**
- **Among respondent community banks, an overall average of 64% of originated residential mortgage loans are held in the bank's portfolio for the life of the loan. The majority of respondent banks (52%) hold at least 80% or more of the loans originated for the life of the loan.**
- **Only 33% of the respondents originate and hold ARMs in portfolio. Smaller community banks are less likely than average to originate and hold ARMs in portfolio.**
- **Most respondents (64%) indicate they make higher-priced mortgage loans and provide escrow accounts for them (as required by federal regulation).**

Mortgage Originations

Most of the responding banks (90%) originated fewer than 500 mortgage loans in 2012. Almost all responding banks with less than \$100 million in assets did so (98%). Most banks with \$101-\$250 million in assets originated fewer than 500 mortgages (95%).

While the balloon exception is for banks with up to \$2 billion in assets, larger community banks find it more difficult to qualify for the exception based on the number of mortgages originated. Nearly one-fourth (24%) of respondent banks with \$251-\$500 million in assets will be unable to use the balloon exception because they originate more than 500 mortgages. Only 55% of banks with more than \$500 million in assets originate fewer than 500 loans, so 45% of banks in this category will be unable to qualify for the balloon exception based on the number of originations (Figure 1).

Figure 1: How many residential first-lien mortgage loans did your bank originate during the calendar year 2012?



Loans Held in Portfolio

Among respondent community banks an overall average of 64% of residential mortgage loans are held in the bank's portfolio for the life of the loan. The majority of respondent banks (52%) hold at least 80% or more of the loans originated for the life of the loan (Figure 2).

Larger community banks hold a smaller percentage of loans in portfolio for the life of the loan. Among respondent banks with more than \$250 million in assets, 46% of originated loans are

held in portfolio for the life of the loan, compared to 65% for banks with \$101-250 million and 72% for banks with less than \$100 million in assets. Also, rural banks hold a higher percentage of originated loans in portfolio (68%) compared to suburban (53%) or urban (43%) banks (Figure 2). When we examine the data as the percentage of respondents that fall within percentage ranges, the same trends are apparent (Figure 3 & 4).

Figure 2: What percentage of the loans originated in 2012 are to be retained in the bank's portfolio for the life of the loan? - Mean

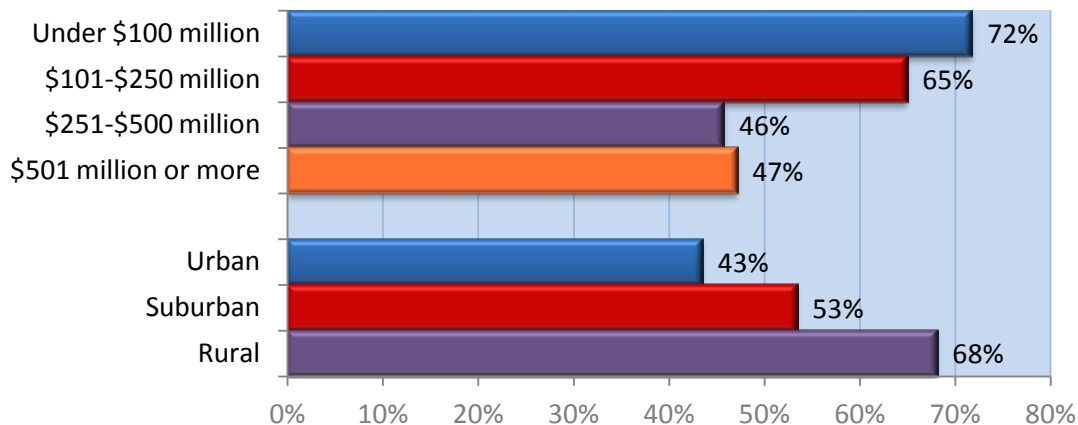


Figure 3: What percentage of the loans originated in 2012 are to be retained in the bank's portfolio for the life of the loan? – Percent within Ranges by Asset Size

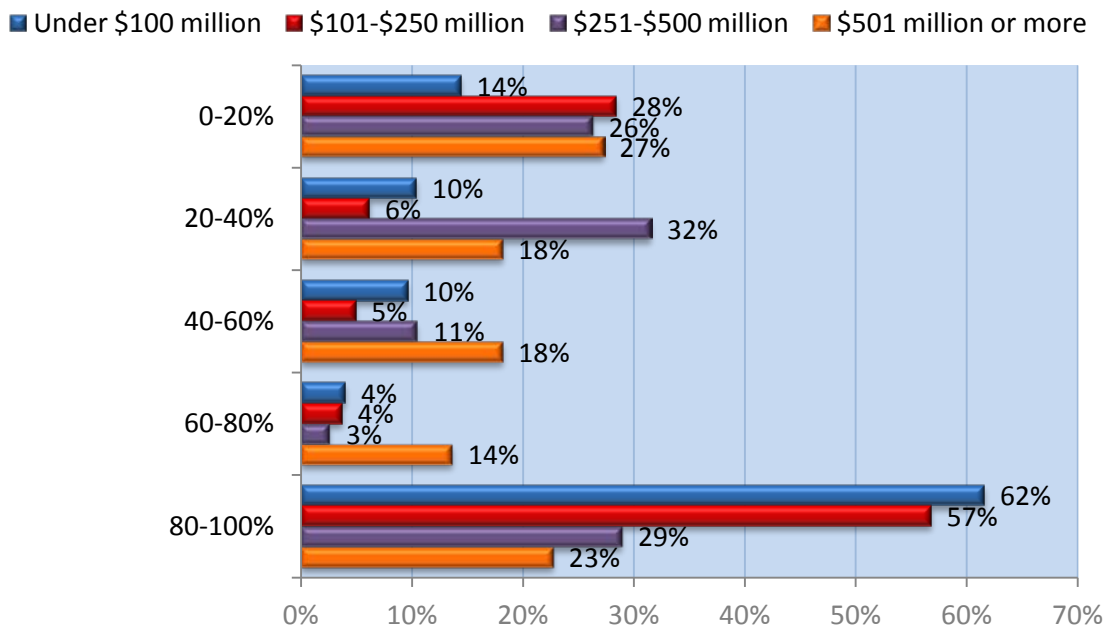
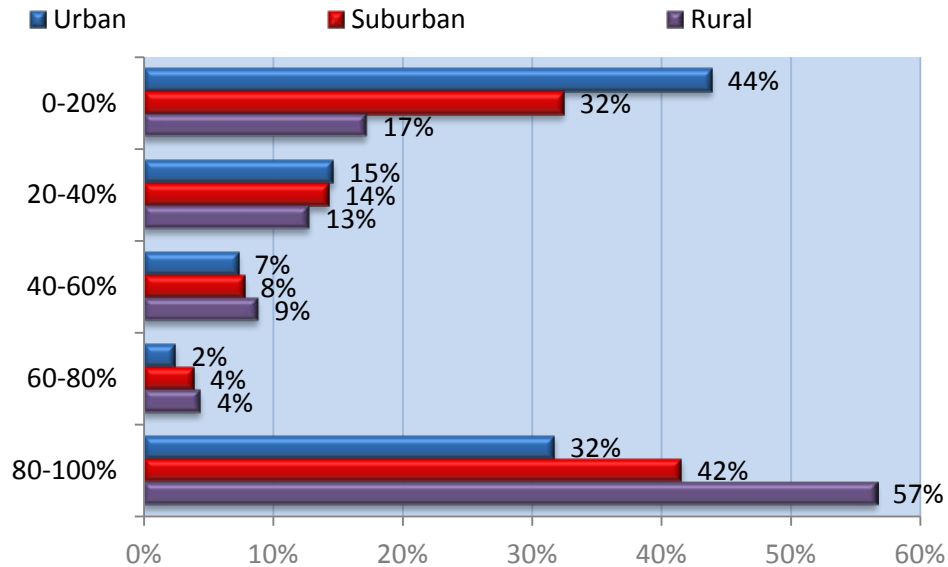


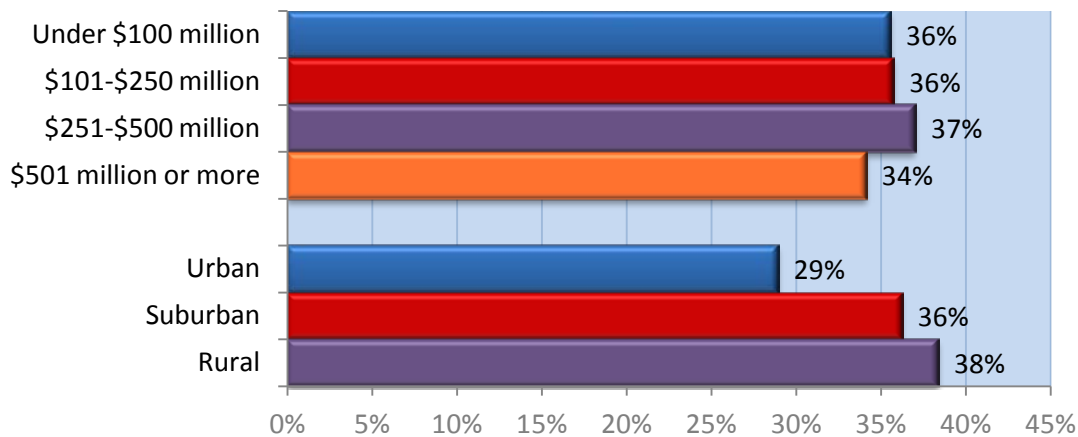
Figure 4: What percentage of the loans originated in 2012 are to be retained in the bank's portfolio for the life of the loan? – Percent within Ranges by Geography



Adjustable Rate Mortgages

Asset size makes little difference to the percentage of adjustable rate mortgages (ARMs) with all peer groups close to the overall average of 36%. However, banks that report serving urban markets made fewer ARMs as a percentage of overall loans than other banks (29%, Figure 5).

Figure 5: What percentage of your bank's residential first-lien mortgage loans held in portfolio have adjustable rates (ARMs)?



One-third (33%) of respondent banks indicate they have no ARMs in their portfolio and institutions with less than \$250 million in assets are even less likely to have ARMs in their portfolio (Figure 6 & 7).

Figure 6: What percentage of your bank's residential first-lien mortgage loans held in portfolio have adjustable rates (ARMs)? – Percent within Ranges by Asset Size

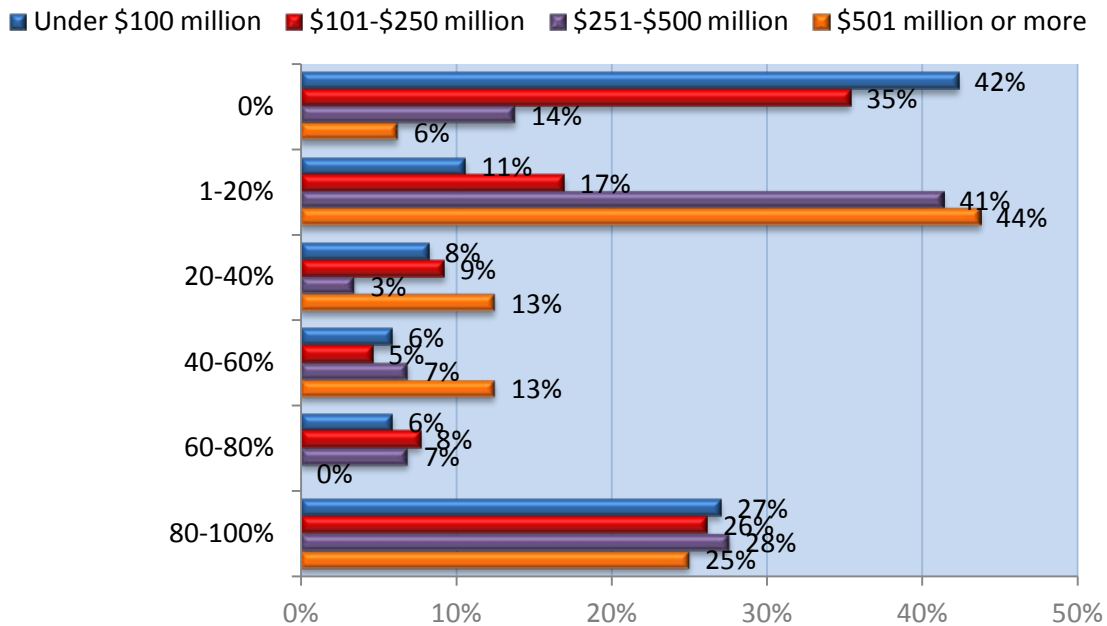
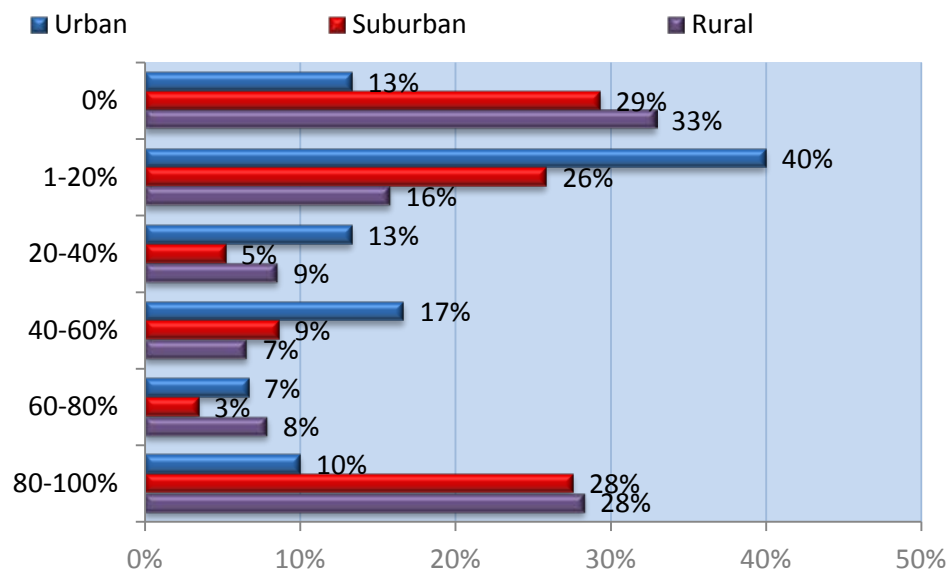


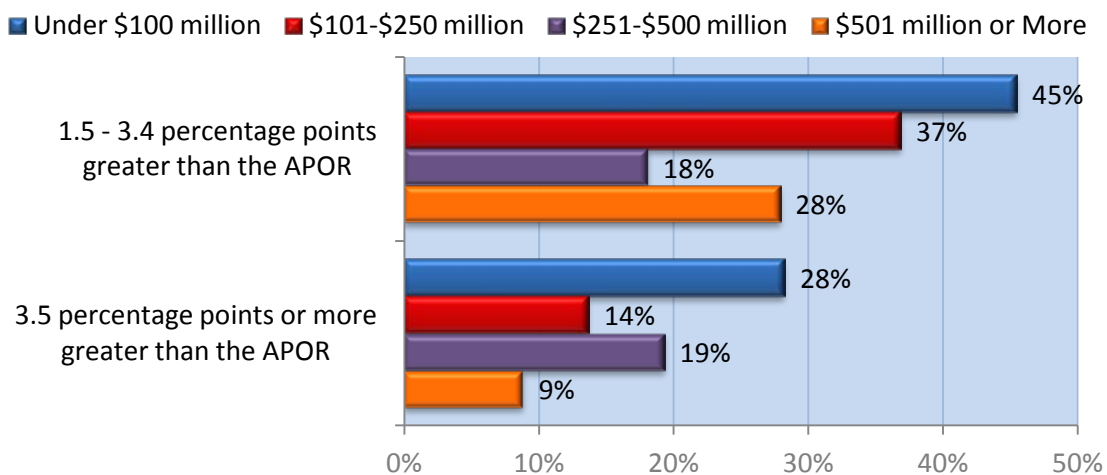
Figure 7: What percentage of your bank's residential first-lien mortgage loans held in portfolio have adjustable rates (ARMs)? – Percent within Ranges by Geography



Higher-priced Loans

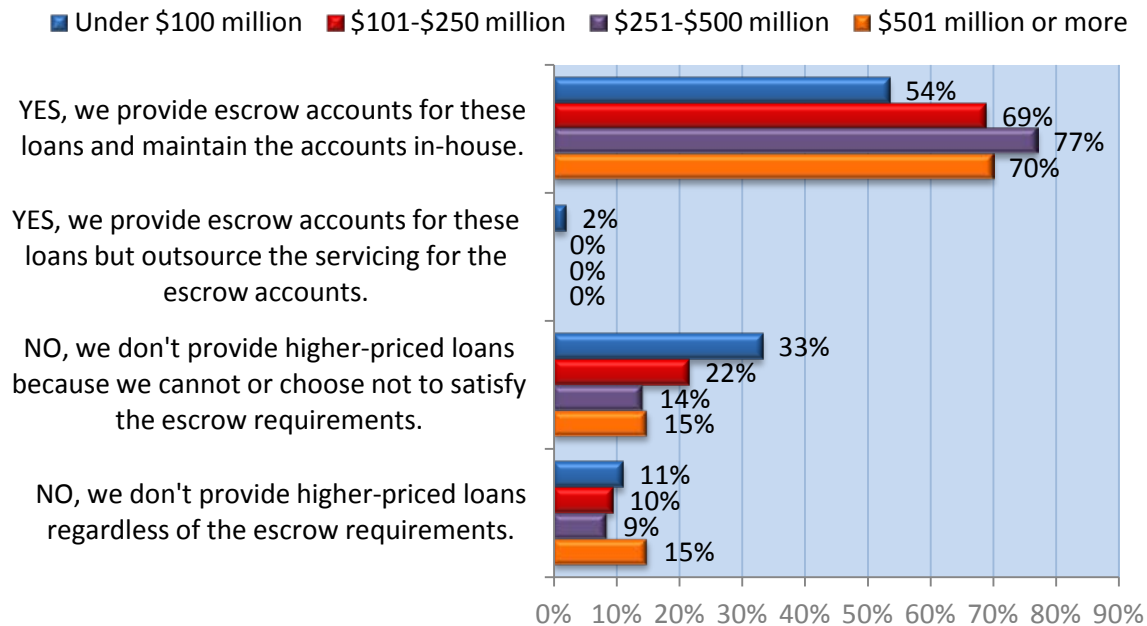
Bank asset size has a more substantial impact on loan pricing. For respondent banks with less than \$100 million in assets, most loans (74%) have an APR that exceeds the APOR by more than 1.5 percentage points. For banks serving rural areas, 62% of loans exceed the APOR by 1.5 percentage points and 22.5% exceed the APOR by more than 3.5 percentage points (Figure 8). This reflects the higher cost of funds and operations for smaller banks and rural banks.

Figure 8: What percentage of residential first-lien mortgage loans originated by your bank have an Annual Percentage Rate (APR) that exceeds the Average Prime Offer Rate (APOR) for mortgage by the following amounts?



Most respondents (64%) indicate they make higher-priced mortgage loans and provide escrow accounts for them (as required by federal regulation, Figure 9). Fewer banks with less than \$100 million in assets provide escrow accounts, with one-third (33%) indicating they do not provide higher-priced loans because they cannot or choose not to satisfy the escrow requirements.

Figure 9: Does your bank currently provide escrow accounts for loans deemed to be higher-priced mortgage loans?

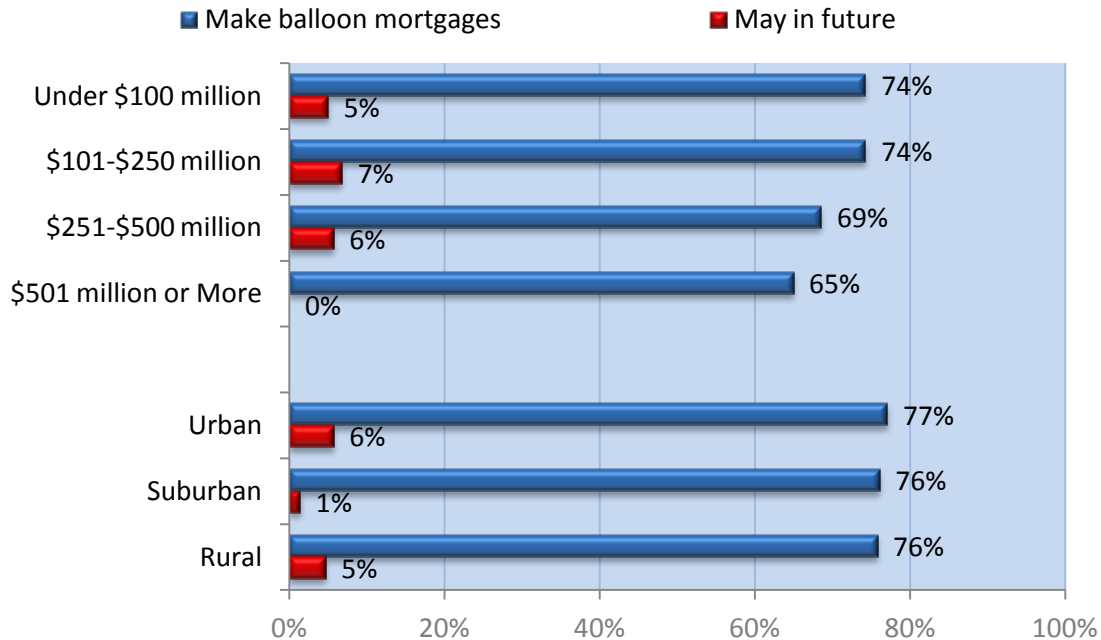


Most respondents (62%) have had a borrower request an escrow account, with institutions with more than \$250 million in assets being more likely to have had such a request (more than 80%). The majority of respondents (55%) provided at least one escrow account at the borrower's request during 2012, but most often less than five (24%).

Balloon Mortgages

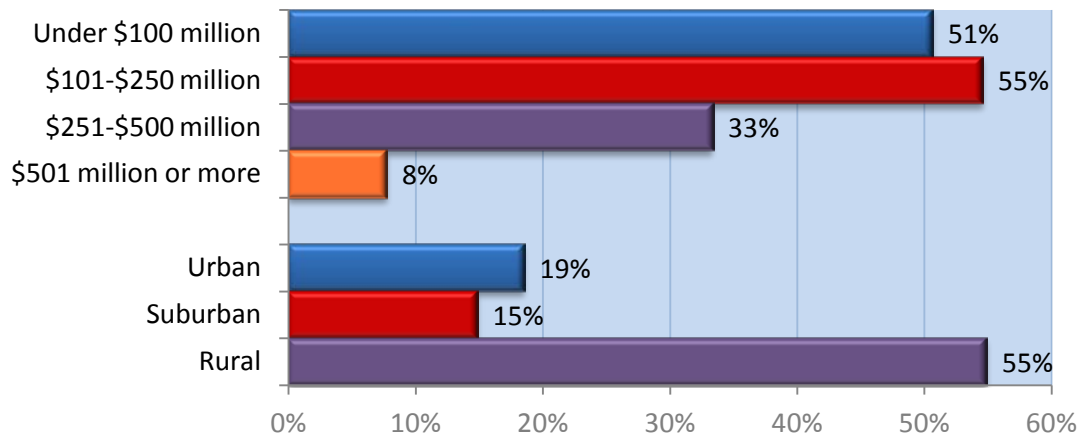
Most respondents (73%), including a majority of banks in all peer groups, currently make balloon mortgages. Many that do not currently make balloon loans may do so in the future (5%). Smaller banks are more likely to currently make balloon mortgages (Figure 10).

Figure 10: Does your bank currently offer balloon mortgages?



Among survey respondents that currently make balloon mortgages less than half (46%) of community banks would qualify for the balloon mortgage exception. Approximately half of community banks with less than \$100 million in assets, between \$101-\$250 million in assets and indicating that they serve rural areas would qualify (Figure 11). Few larger community banks would qualify, including only one-in-three (33%) of community banks with \$251-\$500 million in assets and one-in-twelve (8%) community banks with more than \$501 million in assets would qualify.

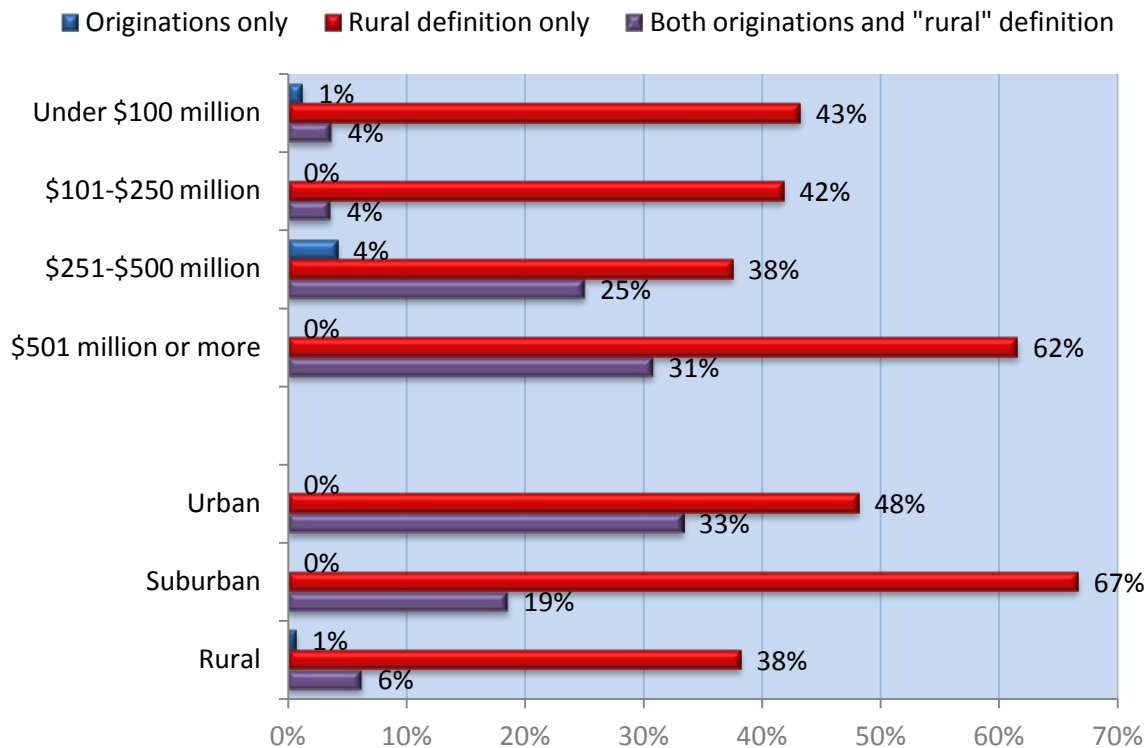
Figure 11: Percentage of Community Banks Qualifying for Balloon Mortgage Exception by Peer Group



Community banks that do not qualify for the exception are disqualified primarily on the basis of the definition of “rural” (43% overall) or a combination of the number of originations and the definition of rural (9% overall). Only 1% of banks are disqualified based solely on the number of originations.

Most banks with less than \$250 million in assets that currently make balloon mortgages but would be unable to qualify for the exception are disqualified by the definition of rural. Larger banks with more than \$250 million in assets are likely to be disqualified by both the number of originations and the definition of rural (Figure 12). Given the impact of these factors the \$2 billion asset cut-off has little meaning, and few community banks with \$501 million - \$2 billion in assets will qualify for the balloon exception.

Figure 12: Percentage of Community Banks Disqualified for Balloon Mortgage Exception by Qualifying Factor



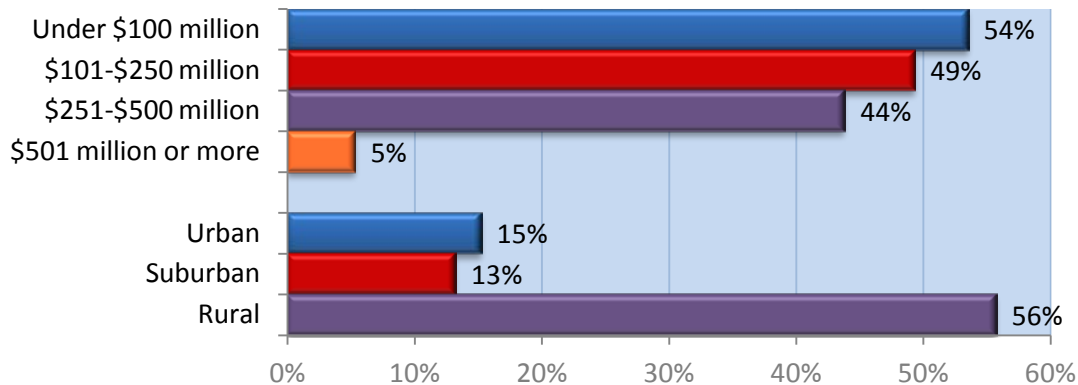
Qualifying under the Rural Definition

Most small and rural banks originate loans in only one or a handful of counties, with 92% of banks with less than \$100 million in assets serving 5 or fewer counties and 98% of banks in this size category serving 10 or fewer counties. For rural banks, 72% serve 5 or fewer counties and 90.5% serve 10 or fewer counties.

Overall, fewer than half of respondent banks (47%) indicate they make more than 50% of mortgage originations in qualifying counties in neither a metropolitan statistical area (MSA) nor an adjacent micropolitan statistical area under the definition of rural in the Ability-to-Repay/Qualified Mortgage rule.

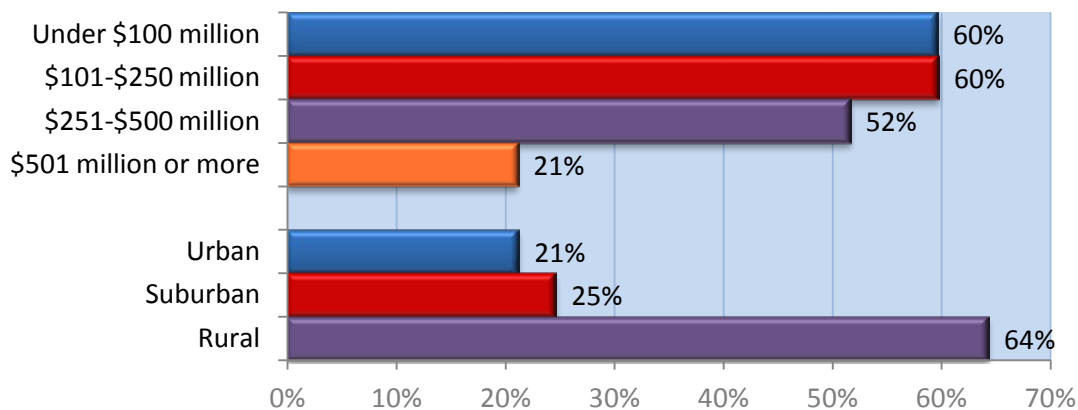
Significantly, among banks that indicate they serve rural areas, 56% make more than 50% of their mortgage loans in qualifying counties – that means 44% of respondent rural banks will not meet the standard of “rural” in the QM rule. Only 5% of respondent banks with more than \$500 million in assets indicate that they will meet this requirement (Figure 13).

Figure 13: Does your bank provide over 50% of its residential first-lien mortgage loans in counties that are neither in a metropolitan statistical area (MSA) nor in a micropolitan statistical area adjacent to an MSA? - Yes Responses



If the definition of rural were expanded to include all counties outside MSAs, more banks would qualify as rural, including 21% of banks with more than \$500 million in assets. However, banks serving urban and suburban markets in addition to rural markets will continue to find it difficult to qualify for the exemption.¹ And 36% of banks that characterize themselves as rural still would not meet the QM definition of rural (Figure 14).

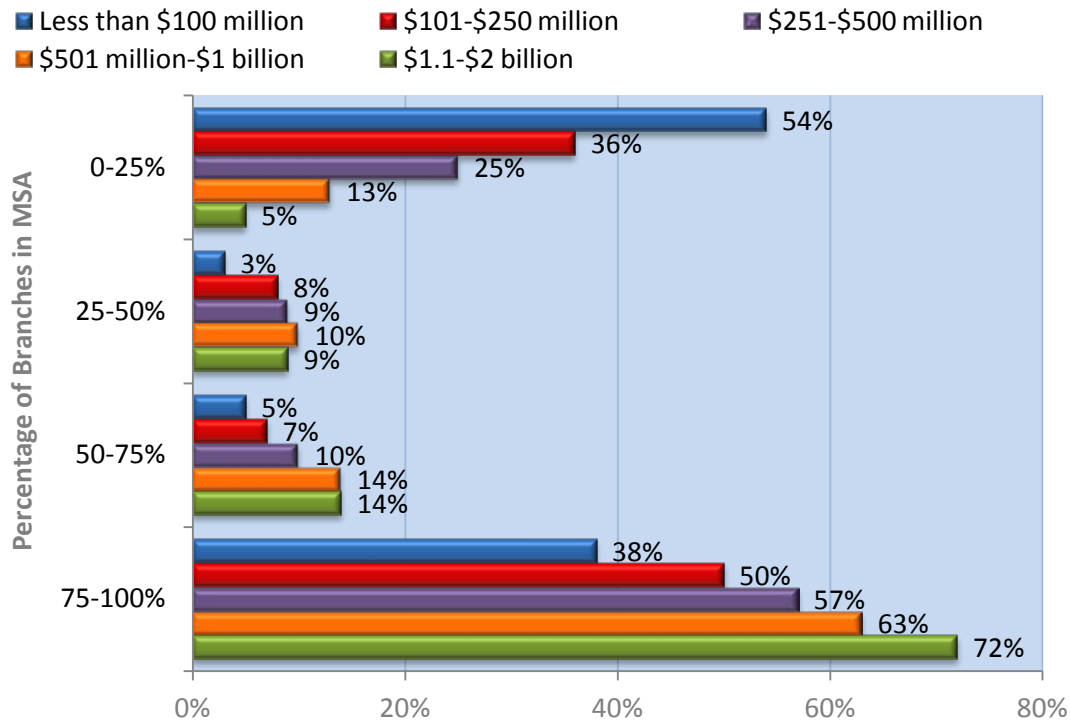
Figure 14: Does your bank provide over 50% of its residential first-lien mortgage loans in counties that are outside an MSA (even if some are in micropolitan counties)? - Yes Responses



¹ Among banks serving rural areas, 11% indicate they also serve urban areas and 19% indicate they also serve suburban areas. This degree of overlap is slightly higher than previous ICBA surveys, including the 2012 ICBA Community Bank Overdraft Study (7% and 18% respectively) and the 2011 Community Bank Payments Survey (9% and 18%, respectively).

The majority of banks of all asset size groups except those with less than \$100 million in assets have most of the branches located inside an MSA (Figure 15).

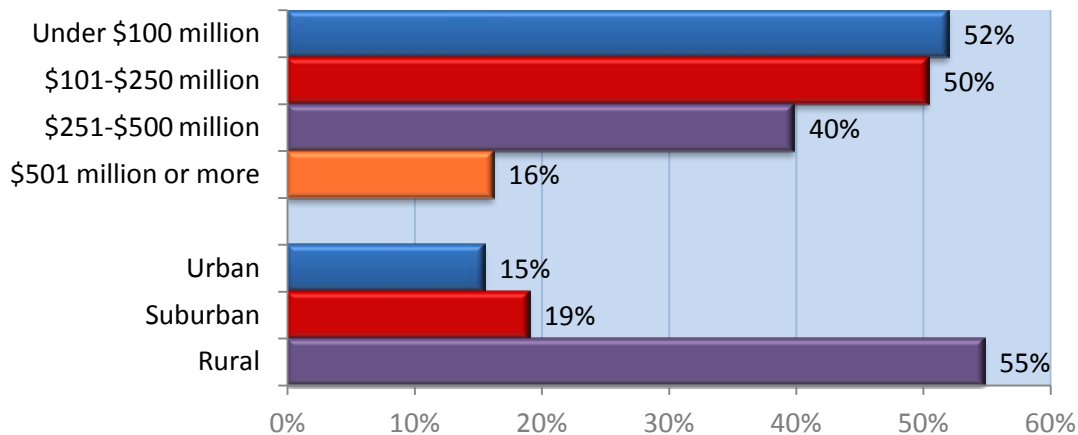
Figure 15: Percentage of Branches Located in MSA from FDIC Summary of Deposits 2011



Detailed Data on Mortgage Lending in Rural Areas

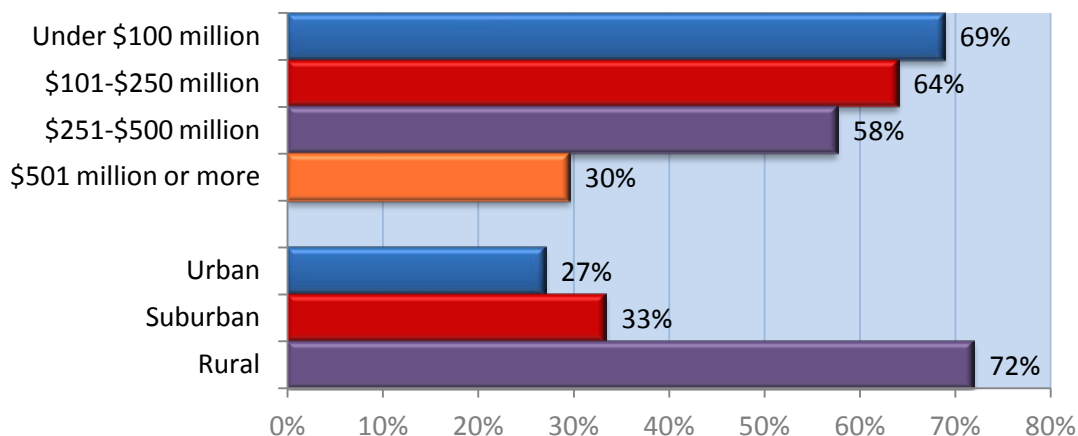
Banks with under \$100 million and \$101-250 million in assets originate an average of half of their mortgage loans in qualifying counties that are in neither an MSA nor an adjacent Micropolitan Statistical Area (52% and 50% respectively, Figure 16).

Figure 16: What percentage of the residential first-lien mortgage loans originated in 2012 were located in counties meeting the following description? Neither in MSA nor in Adjacent Micropolitan - Mean



Banks with less than \$500 million in assets originate an average of more than 50% of their mortgage loans outside of MSAs (Figure 17).

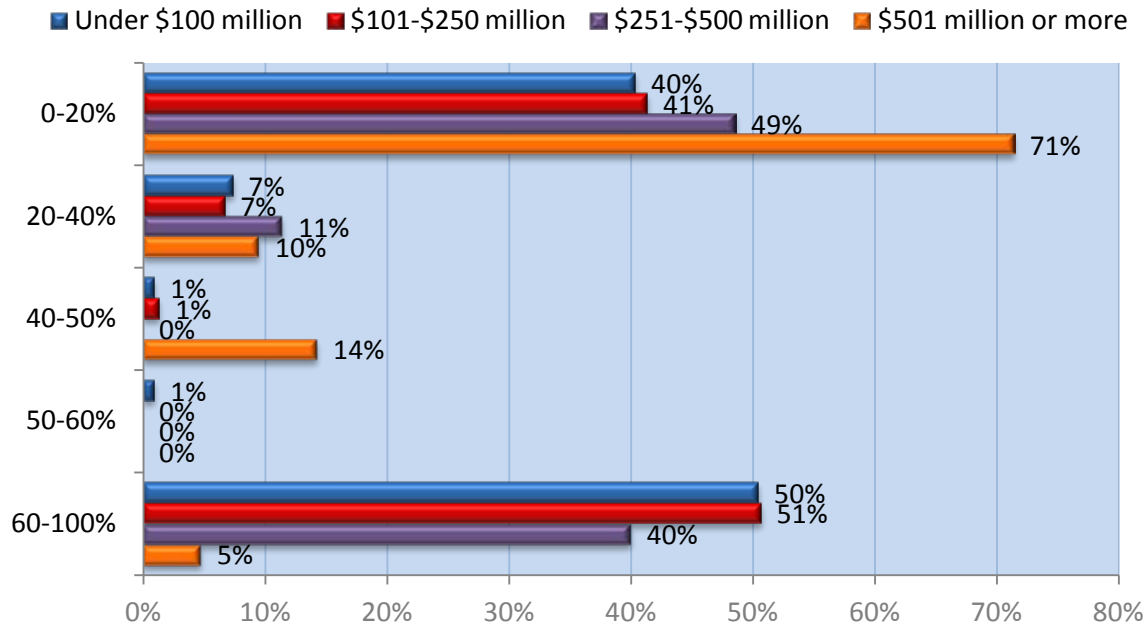
Figure 17: What percentage of the residential first-lien mortgage loans originated in 2012 were located in counties meeting the following description? Not in MSA - Mean



However, 47% of banks with less than \$100 million in assets and 48% of those with \$101-250 million in assets originate fewer than 40% of their loans in qualifying counties. For banks with \$251-500 million in assets, 60% originate less than 40% of mortgage loans in qualifying counties

(Figure 18). This means most banks larger than \$250 million in assets will not qualify under the structure of the current definition, even if the threshold is shifted significantly.

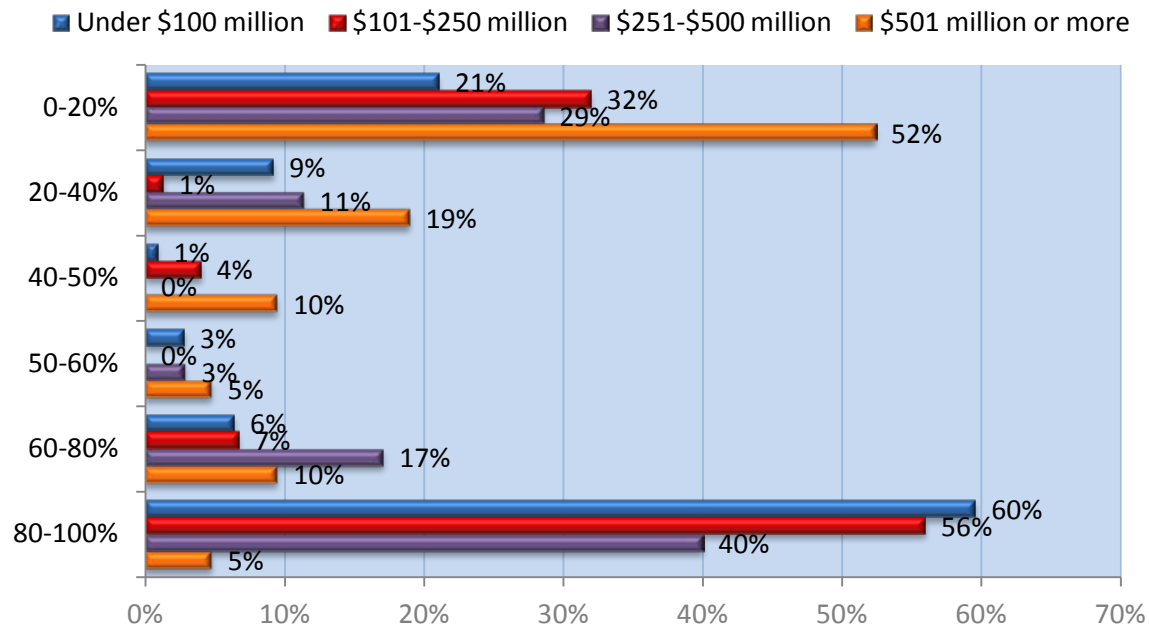
Figure 18: What percentage of the residential first-lien mortgage loans originated in 2012 were located in counties meeting the following description? Neither in MSA nor in adjacent micropolitan - Percent within ranges



Few community banks with more than \$500 million in assets will meet the 50% standard, with only 5% making more than 50% of mortgage loans in qualifying counties. An additional 14% of banks with more than \$500 million in assets make between 40-50% of their mortgage loans in qualifying counties.

Including Micropolitan Statistical Areas adjacent to MSAs in the definition of rural might be expected to increase the number of banks that qualify for the exception; however, the impact is limited. While the average percentage of mortgages originated outside MSAs is below 50% for all assets size peer groups under \$500 million in assets, when respondents are grouped into ranges, few banks fall near the threshold (Figure 19).

Figure 19: What percentage of the residential first-lien mortgage loans originated in 2012 were located in counties meeting the following description? Not in MSA - Percent within Ranges



Balloon Lending Alternatives

Some banks would consider providing ARMs as an alternative to balloon loans (36%) or increasing ARM lending (29%). However 19% of respondents indicate they would greatly limit mortgage lending or exit the business altogether if restrictions on balloon lending become too burdensome, with the impact greatest among banks with less than \$100 million in assets (34%) and those serving rural areas (21%, Figure 20-21).

Figure 20: If federal restrictions on balloon mortgage loans became too burdensome would your bank ever consider providing ARMs as an alternative? By Asset Size

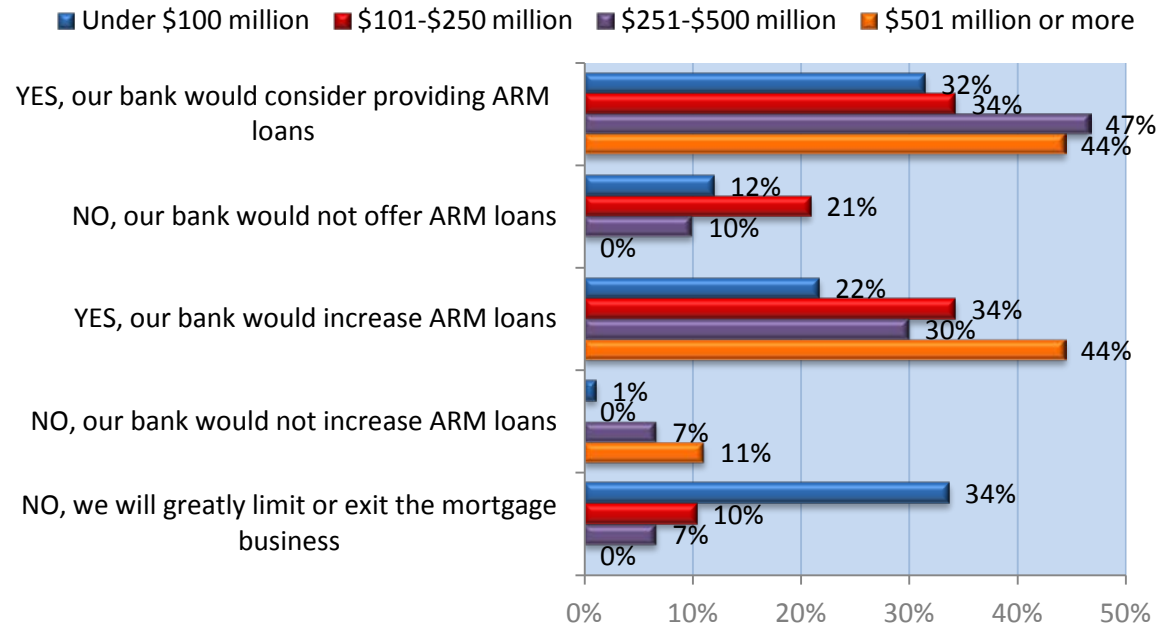
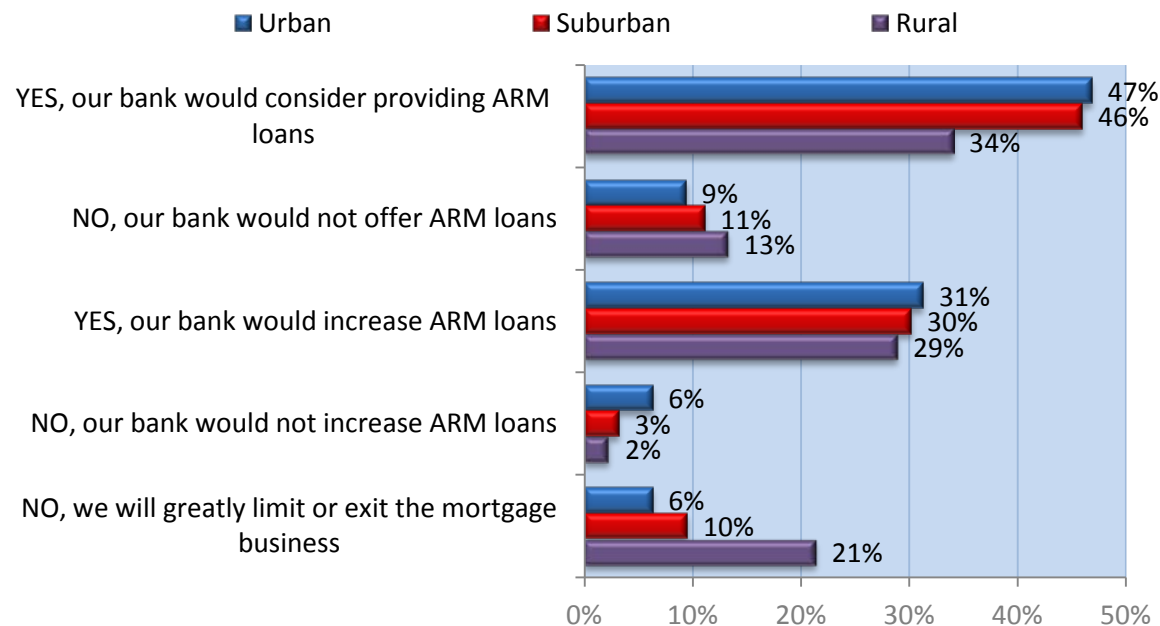


Figure 21: If federal restrictions on balloon mortgage loans became too burdensome would your bank ever consider providing ARMs as an alternative? By Geography



Appendix A: Selected Banker Text Responses

We have one bank location in Sauk Centre, MN with a population of 4,300 but are pulled into an MSA area for Stearns County because St. Cloud, MN is located 45 miles away. We are as rural as it gets, but not per MSA's standards. We only have 3 stoplights, tractors drive down main street and we are surrounded by farm land - how much more rural can you get? Thank you.

Due to the government purchasing mortgage backed securities in order to drive the rate down, the only mortgage applications we get are for borrowers/properties which don't qualify for the secondary market. We are too small to escrow, therefore we have to do these higher risk loans at a low rate according to the government table. If any more restrictions and/or requirements are jammed down our throats by the government we will stop doing mortgage loans and as the balloons come due we will call the loans and foreclose if they can't pay them in full. Tell me how this will help the customer?

We provide a good mortgage borrowing option for all of our customers that cannot qualify for fixed rate secondary market borrowing. These loans balloon periodically and are always made and maintained at market rates. These are our bread and butter customers that come into the bank every month. We need them to survive as a smaller independent community bank. We are not out to take advantage of the customers we rely on for our existence.

Our bank is located on the far eastern edge (four miles from the county line) in McLean County, IL, the largest county in land area in the state of Illinois. To the east is Ford County, an almost entirely rural county. McLean County contains Bloomington/Normal, a two city community of 100,000 plus population. The several small towns in the rest of McLean county have populations of 2,000 or less. The entire county is considered a MSA, due to Bloomington/Normal. Our bank is located in Anchor, a town of 150 population in a rural area, about 25 miles east of Bloomington/Normal, but unfortunately still in McLean County.

Up until the recent change in regulations, our bank made three, five, and seven year residential balloon loans to low and moderate income residents of Anchor, surrounding rural areas, and neighboring small towns. Most of these loans were less than \$100,000 (many \$50,000 or less) and were not of much interest to large institutions. [All the larger "prime" loans went to larger institutions in Bloomington/Normal who are active in the secondary market.]

We kept all loans in our in-house portfolio and did our own loan servicing. We never had any difficulty with arranging extensions/modifications with customers who reached a balloon maturity. With a small staff of three full time employees (including me) we did not feel we could afford the extra expense of escrow accounting and compliance. With the increasing complications of lending under the HOEPA and higher-priced mortgage regulation we felt forced to discontinue residential real estate lending (except for rental properties) in 2010. Prior to the regulation changes, if a residential loan customer asked about escrow, we offered to set up a separate savings account and make monthly transfers from their checking of 1/12th the amount needed to pay real estate taxes and homeowner's insurance. It was up to the customer to make sure they took out the money and paid their taxes and insurance when they were due. This arrangement has worked fine since I came to the bank in 1979.

While it may not be politically correct to say it, our first duty as bankers is to make a profit for our shareholders. If we do not, the bank is not here to serve our community. We would like to resume small

residential real estate lending. Our customers want it and it would help our profitability. BUT, it appears the proposed regulations will require us to do formal escrows (with the accompanying accounting and compliance burdens), even though we are located 25 miles from the large community which lands our county in the MSA classification. Please feel free to contact me if you need additional information or elaboration.

An arbitrary floor of \$2 billion is not sufficient for Banks in Montana. It is a large state with low population, and this level would exclude our two largest institutions (\$7B in size). These two institutions still serve a great portion of Montana - much of which is rural. We need a consistent floor applied across the regulations.

We used to offer balloon mortgages before all the changes several years ago. It served our bank and our market very well. We started up our escrow accounts out of necessity to meet regulations not because we or our customers wanted them. I hope CFPB will pay attention to this.

1) The vast majority of our residential mortgage are "outside the box" of one or more secondary market guidelines (acreage, mixed use, D/I ratios, etc.) 2) 20% down (or equity on refinances) is required on all residential mortgage loans. 3) In our 100+ year history, the Bank has never initiated foreclosure on any residential mortgage loan.

The proposed CFPB regulations may well drive us out of residential mortgage lending

The balloon loans that we are making are to consumers who otherwise would not be eligible for mortgage credit for various reasons. We are taking additional risk by making these loans and we provide a valuable service to our customers by doing so. I know that we are considered to be in an MSA but we are very rural and I don't think we should be subjected to the new rules.

Sometimes the current appraisal underwriting guidelines create a lot of problems for borrowers because of the lack of sales of similar type properties because we are so rural. We end up having to find other alternatives to Freddie and Fannie. That includes booking loans on our books instead of selling them.

We just started escrow services this month in anticipation of the new HPML rules. We have one loan on the books that has escrow that we booked this month. We have always originated balloon loans. We would prefer not to offer ARM loans but that may be a necessity.

The current HPML regulations are extremely burdensome on our staff & also confusing for the average customer. Most customers do not understand why we have to escrow, why we give them some of these disclosures, or why they have to wait so long to close their loan. As we are forced to escrow more & more loans, it may become necessary for our bank to hire one or two more employees to keep up with this regulation alone. That's a huge expense for a bank our size!

Our little bank was forced by regulations to offer escrow on mortgage loans starting in April 2010. However, not all counties in our area will send tax bills to the bank which causes confusion for our customers. Of course, I'm still curious how the lack of escrow on a mortgage loan contributed to the mortgage crisis caused by poor underwriting.

Our bank will not make a loan that would be classified as a higher-priced mortgage due to the additional regulatory burden required by these mortgages including escrow requirements. Requests that would result in a Higher-priced Mortgage are either modified or we simply refuse to make the loan.

Most of our current business is very rural, but we have a growing presence in a MSA. I think the rule should not apply to loans made out of the MSA even if we go over 50%. In January of 2013 2/3s of our loans were made in the MSA.

If the definition of urban includes a micropolitan county then our bank is going to have serious problems. We operate in Randolph County, Missouri which has an approximate population of 25,000. To consider us anything other than rural is absurd.

We have a major rural presence but the rural balloon loan option is not open to us because we are over the \$2 Billion threshold. The qualifying standard should be changed to more accurately address the lending needs community banks serve in rural areas. Balloon loans should be allowed in rural areas regardless of bank's size. Forcing banks back into ARM loans may present even larger problems down the road.

We are located in rural southern Carlton County, MN which is included in the Duluth MSA which makes no sense. 1.5% over the APOR & 3.5% for 2nd REMs. How are we supposed to make payroll, maintain capital and get any ROE? Where do these APOR's come from? FANNIE & FREDDIE? Is that really fair considering their source of funding & ours? If they need to cover losses they fire up the printing press. Our regulators would just padlock our door being we're not "too big to fail". Sorry I had to vent a little. Thanks for doing this survey. I hope the Feds will turn up their hearing aids and get a grip on reality.

The new requirements for required escrows are a burden to our staff. We are a small community bank.

You are absolutely correct that rural has been defined too narrowly and will keep the majority of banks from qualifying.

There should be NO connection between "high priced" mortgage loans and Mandatory Escrow Accounts. With all of the regulations requiring escrow accounts, it is prohibitive for small community banks to offer them.

Our bank began offering escrow accounts in 2012, so the APR's on our mortgages will likely increase in the future. The only mortgages we offer have balloon features because we service our loans and cannot risk long term fixed rates. The vast majority of our mortgage borrowers would not qualify for 15 - 30 year, fixed, low rate loans. Their default risk is higher, therefore, requiring a higher interest rate. Otherwise, these potential home owners will have to continue renting.

Our bank has not foreclosed on a residential mortgage during the past 15 years and perhaps only 2 homes during the preceding 10 years. We have never refused to renew a balloon payment loan at its maturity. The renewal process is a beneficial opportunity to meet with borrowers and advise them on debt structure and financial progress.

We are a small community bank located in Houston County, Minnesota with the City of LaCrosse, WI located across the river (the real MSA). We are totally NOT a metropolitan area. We have an ag concentration with approximately 80% of our loan portfolio in ag related loans. We do in-house balloon loans for borrowers who do not qualify for a secondary market loan due to a ding in their underwriting (approximately 10% of our portfolio). None of the balloon loans are over 30 days delinquent. We will discontinue offering in-house loans if we cannot offer balloon loans. We are considering discontinuing loans not qualifying for the secondary market already, due to required escrow accounts, which we do not offer. Rates on this type of loan do not reflect risk, due to limiting the interest rate by not offering escrow accounts.

It is the bank's policy to require escrow's on all 1st mortgage residential loans. We do get about 3% requests for exclusion.

We agree that rural is too narrowly defined, and that once again we find a regulation intended to help the consumer that will actually prevent the consumer from getting financing.

Even though we belong to the St. Louis MSA, we are in a very rural area. We are the only bank in 2 of the 4 towns we have branches in. We are an hour from the suburban area.

Our bank has 2 offices located in the eastern, rural portion of Pottawattamie County, IA (which is part of the Omaha/CB MSA), so, even though we are certainly in a "rural" farming area, and the population of our 2 communities is less than 1,400 people, we are explicitly excluded from the "rural" exemption due to a large city located in our county, approx 20 mi away. Our bank has 10 employees covering 2 offices. We have 3 loan officers, one of which is our only mortgage loan officer - in other words, we have a mortgage department of "1". Due to staggering regulatory burden placed on community banks during the recent mortgage reform, our bank has had to stop offering consumer owner-occupied loans. Recent mortgage revisions and prohibitions have made mortgage lending not only impractical, but impossible for a small community bank such as ours.

We have been doing ARM loans and escrowing taxes and insurance for years. We portfolio all of our loans.

We are a small community bank, but we regularly do more than 500 first mortgage originations per year. We believe that this number should be increased for the exemption. We also think that the 43% maximum on the debt-to-income is too restrictive to self-employed borrowers along with S-corp. or sole proprietors.

The margin of 1.5% over the APOR needs to be increased to at least 3.5%. Our bank cost of funds is not the same and is higher than a national cost of funds or the Mega Bank cost of funds on which the APOR is based. Since we hold 100% of our originations in portfolio, we need to be able to price off our internal cost of funds. If we sold into the secondary market the 1.5% margin would be OK, but since we are a portfolio lender, staying under the 1.5% margin squeezes our NIM and if we exceed the 1.5% the escrow requirement makes our cost to service our limited number of loans too high. In 2012 the bank originated 31 1-4 family first lien loans in our small rural community that is located within the Waco Texas MSA. The regulation as currently written by the CFPB will have a substantial negative impact on our bank.

We currently do not fall in the exception because only 43% of our loan originated fall within the definition of rural/underserved. Many of these counties are located adjacent to a metro area; however, clearly should be considered rural or underserved. I think the rural underserved classification should be re-examined.

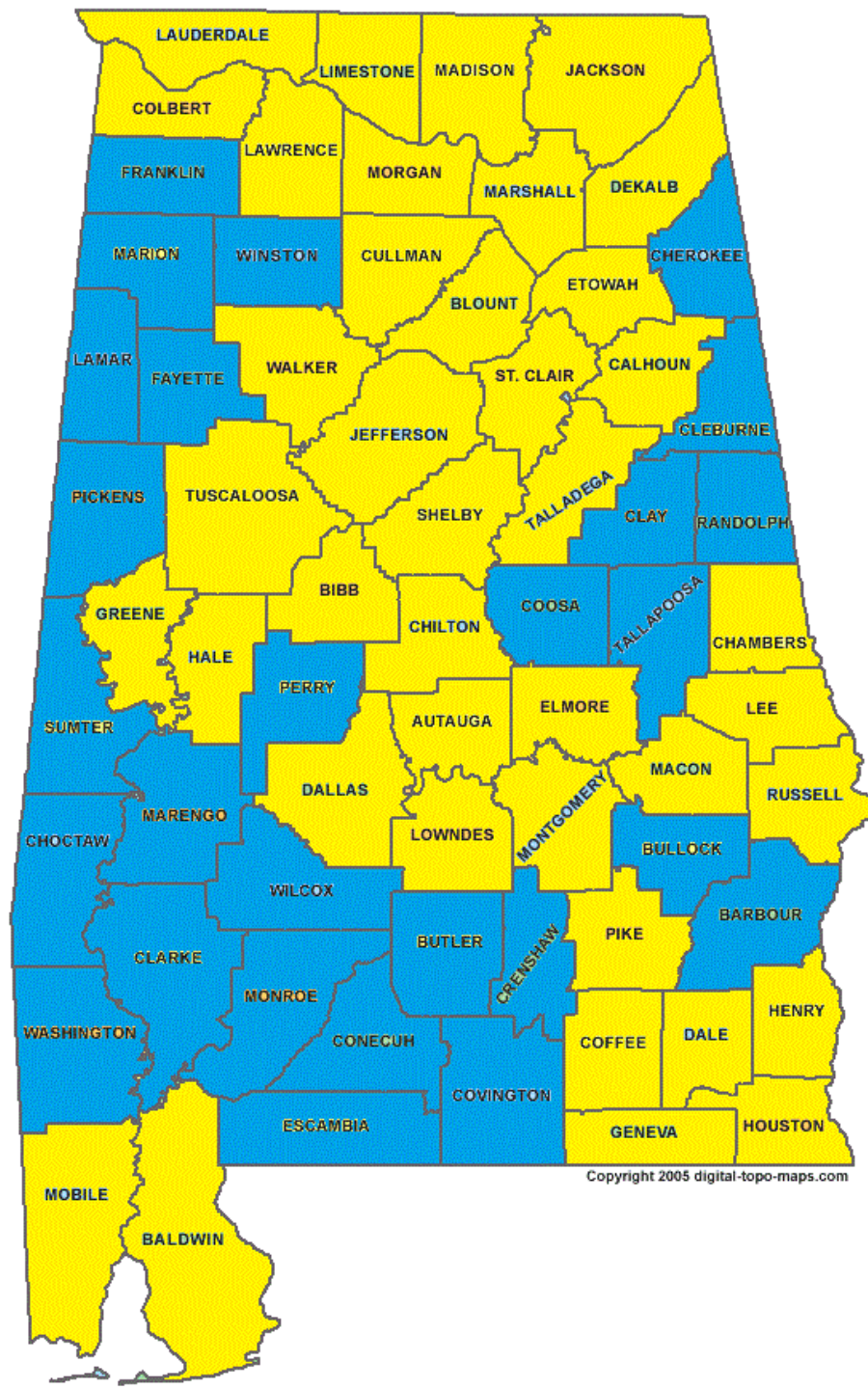
Please remember that most of our customers that have portfolio loans are low income and purchase the lower dollar houses. The secondary market is not interested in these low dollar houses. If it becomes too burdensome to provide portfolio loans and the bank restricts or stops providing these loans it will truly hurt the low income people. One must remember that portfolio loans generally have very low closing costs which help low income people to get into the house in the first place.

Most loans are HPML and balloon. We offer no ARM's now and only started escrow to try to service the mortgage need in our community for those loans not qualifying for the secondary market because of appraisal issues, acreages, sole proprietorship needing income verification, time in job, etc. We want to make mortgage loans to our customer base, but it is becoming extremely difficult and expensive to be compliant. We have a strong history and virtually no delinquencies but are being overpowered by compliance regulation.

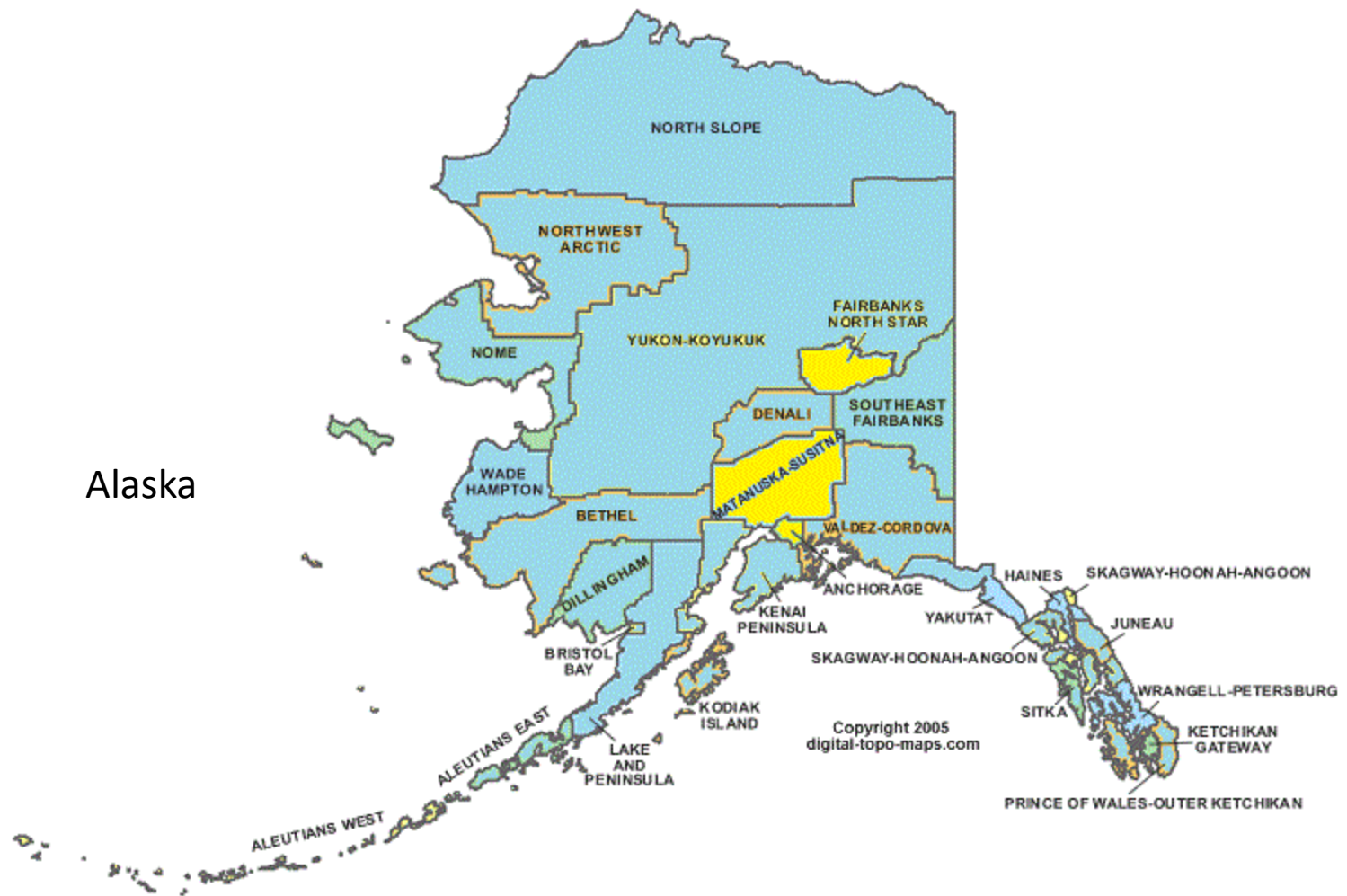
State-by-State Impact of CFPB “Rural” Definition

Rural (blue) and Non-Rural (yellow)
Counties Under the Consumer Financial
Protection Bureau’s Final “Ability to
Repay” Rule

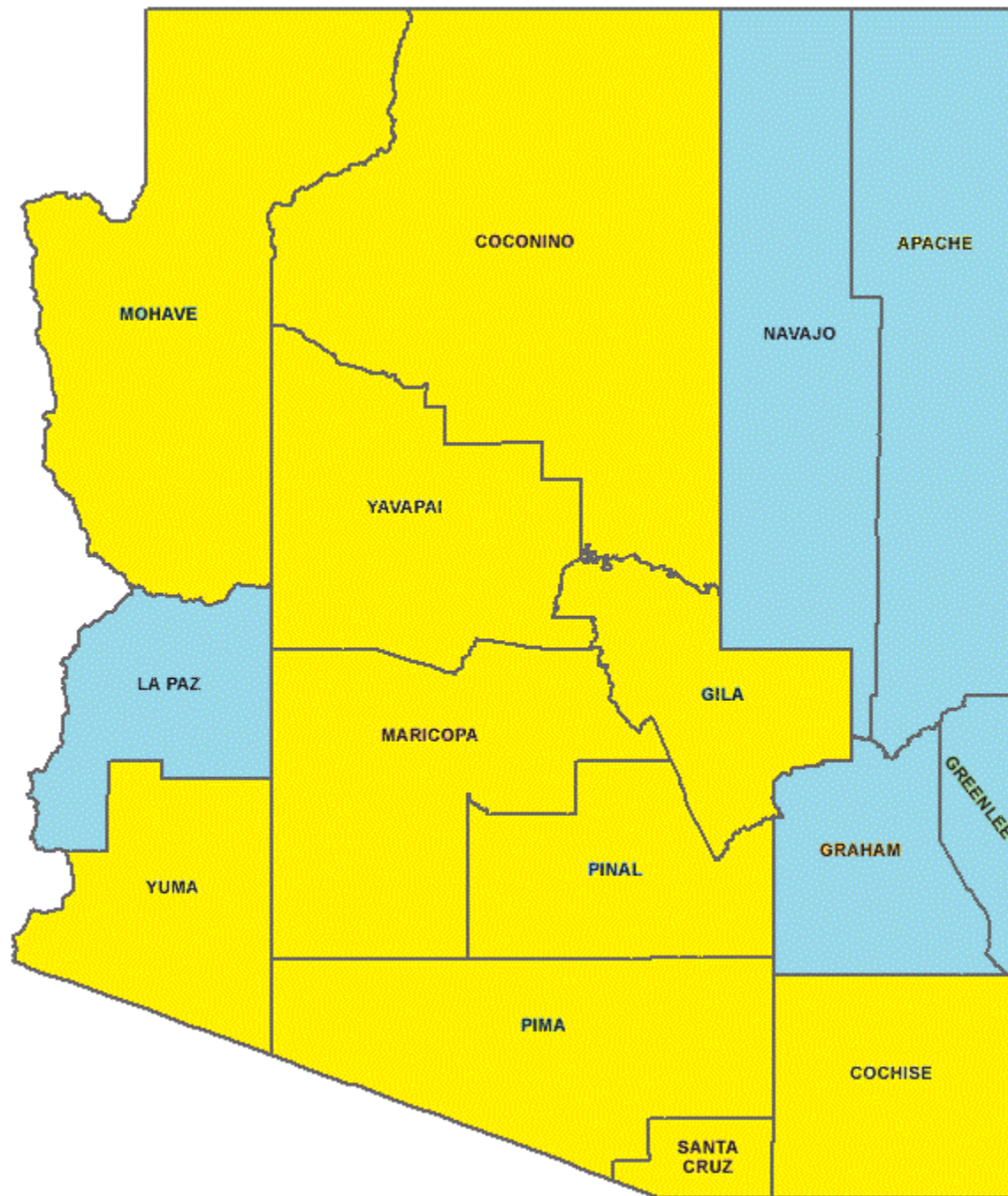
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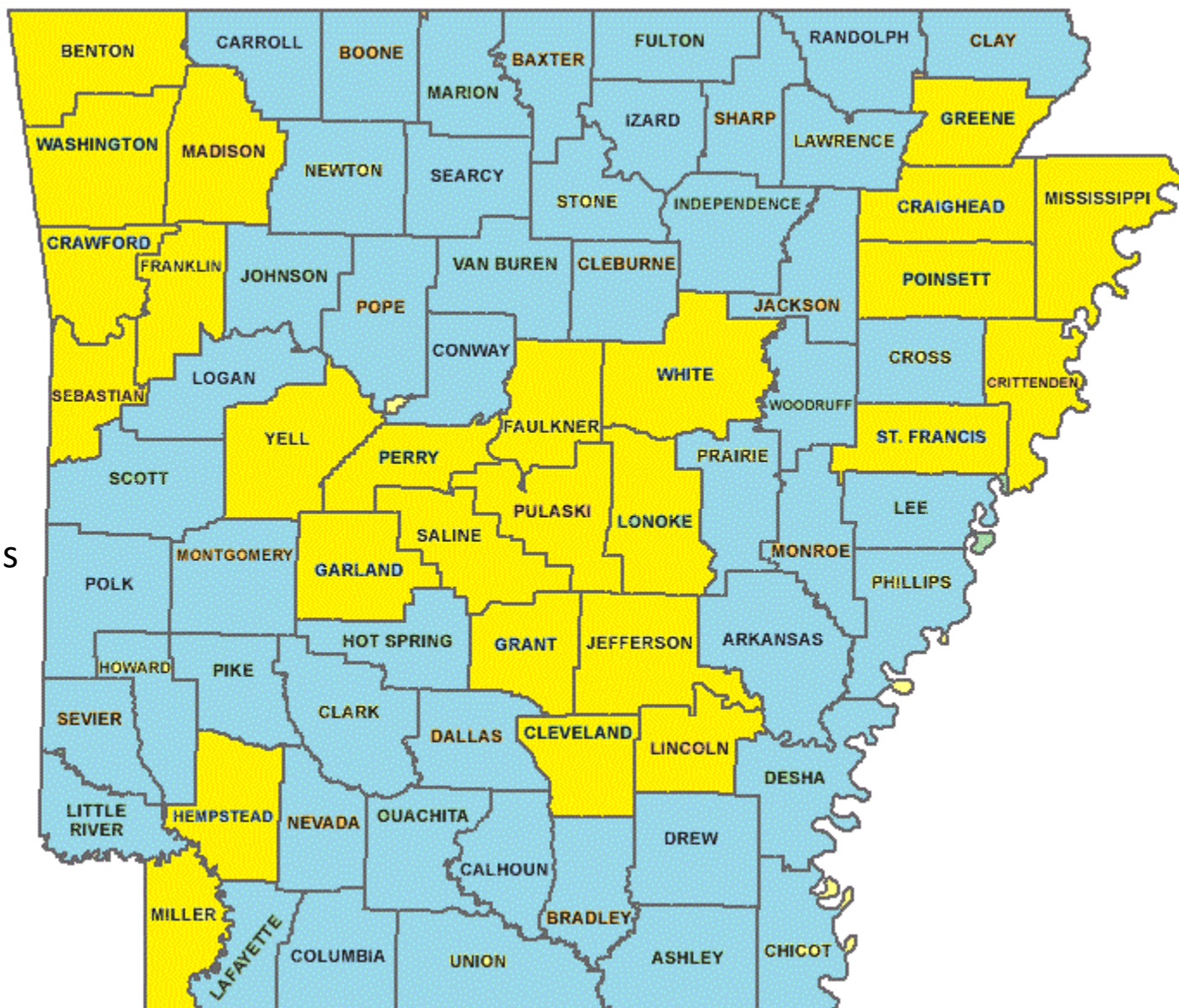
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Arizona



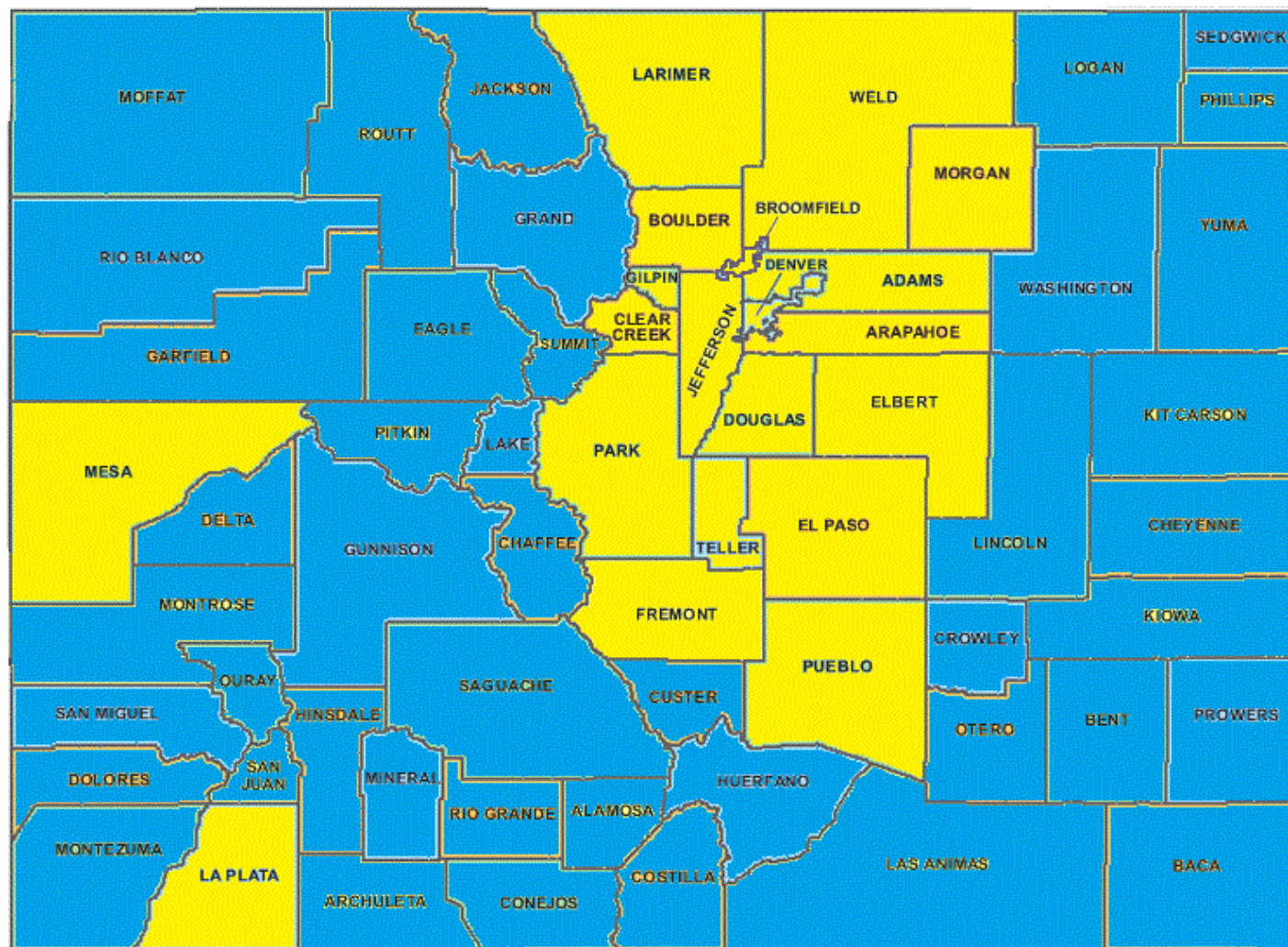
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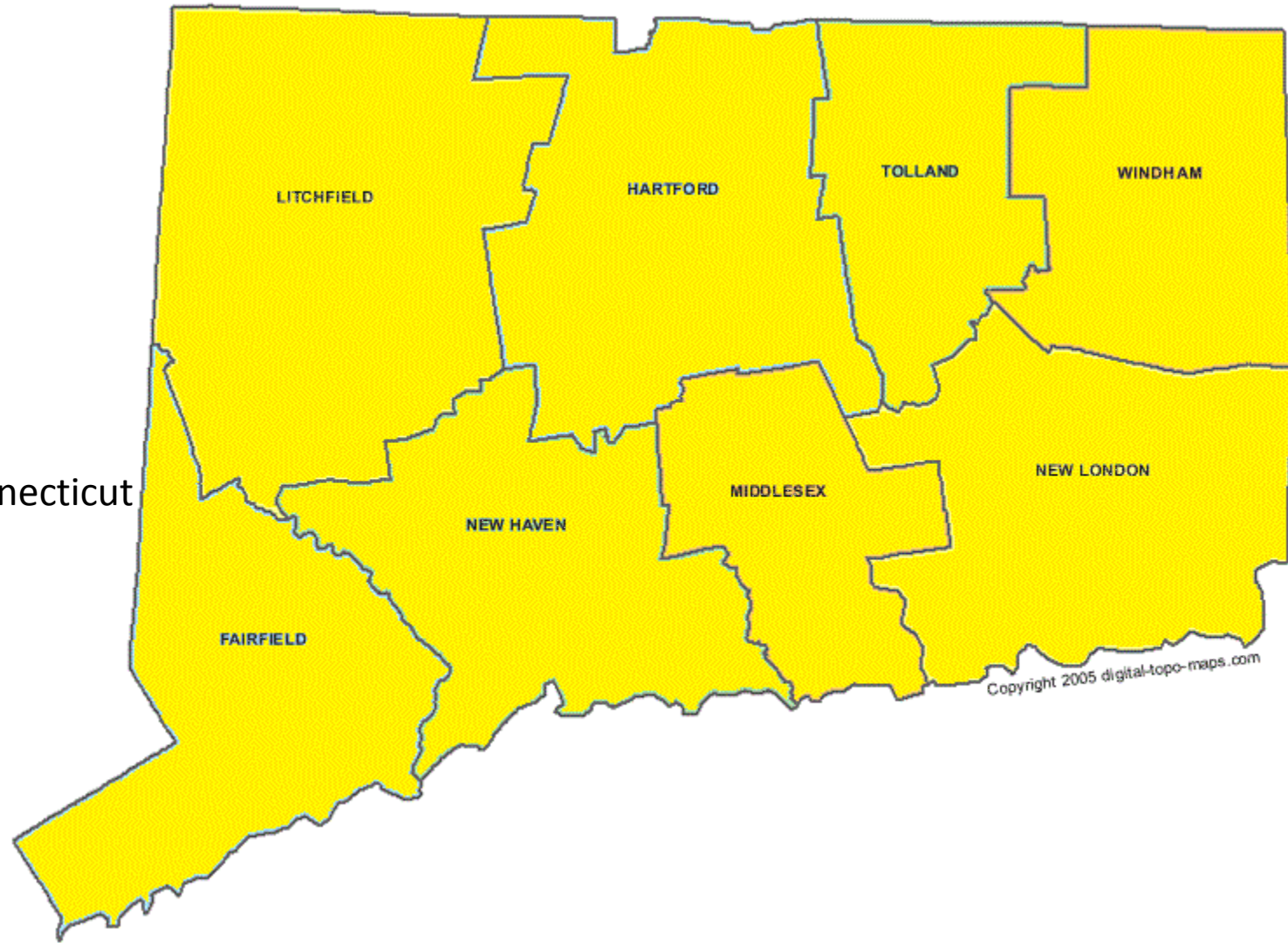
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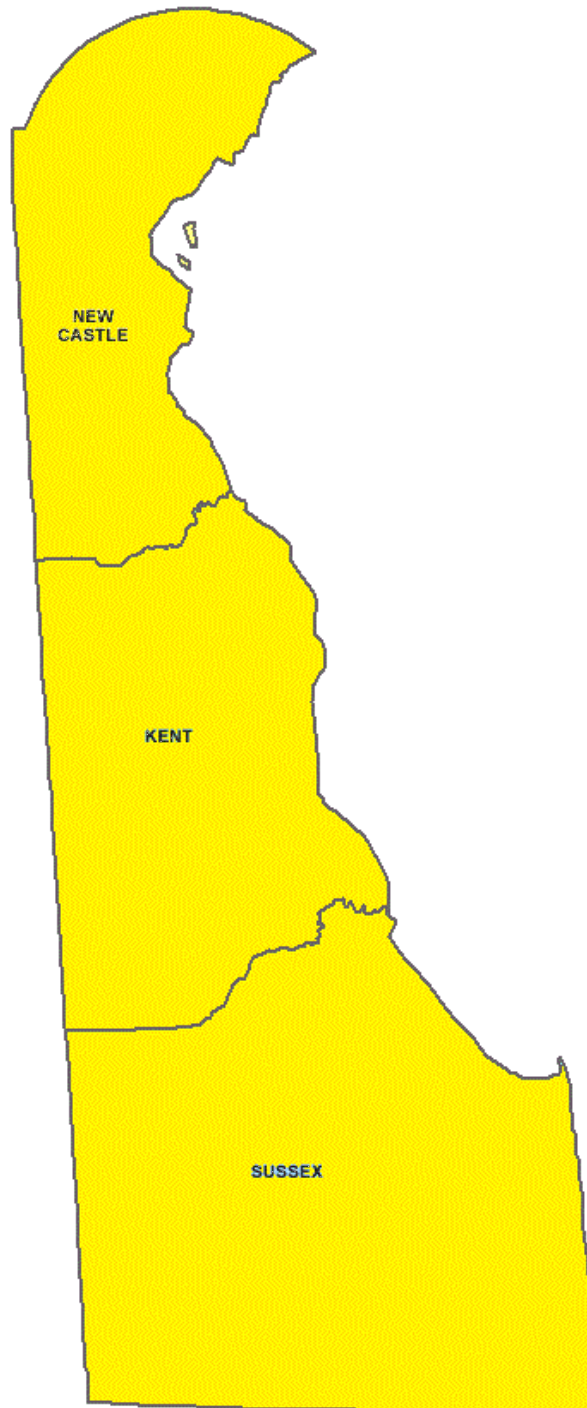
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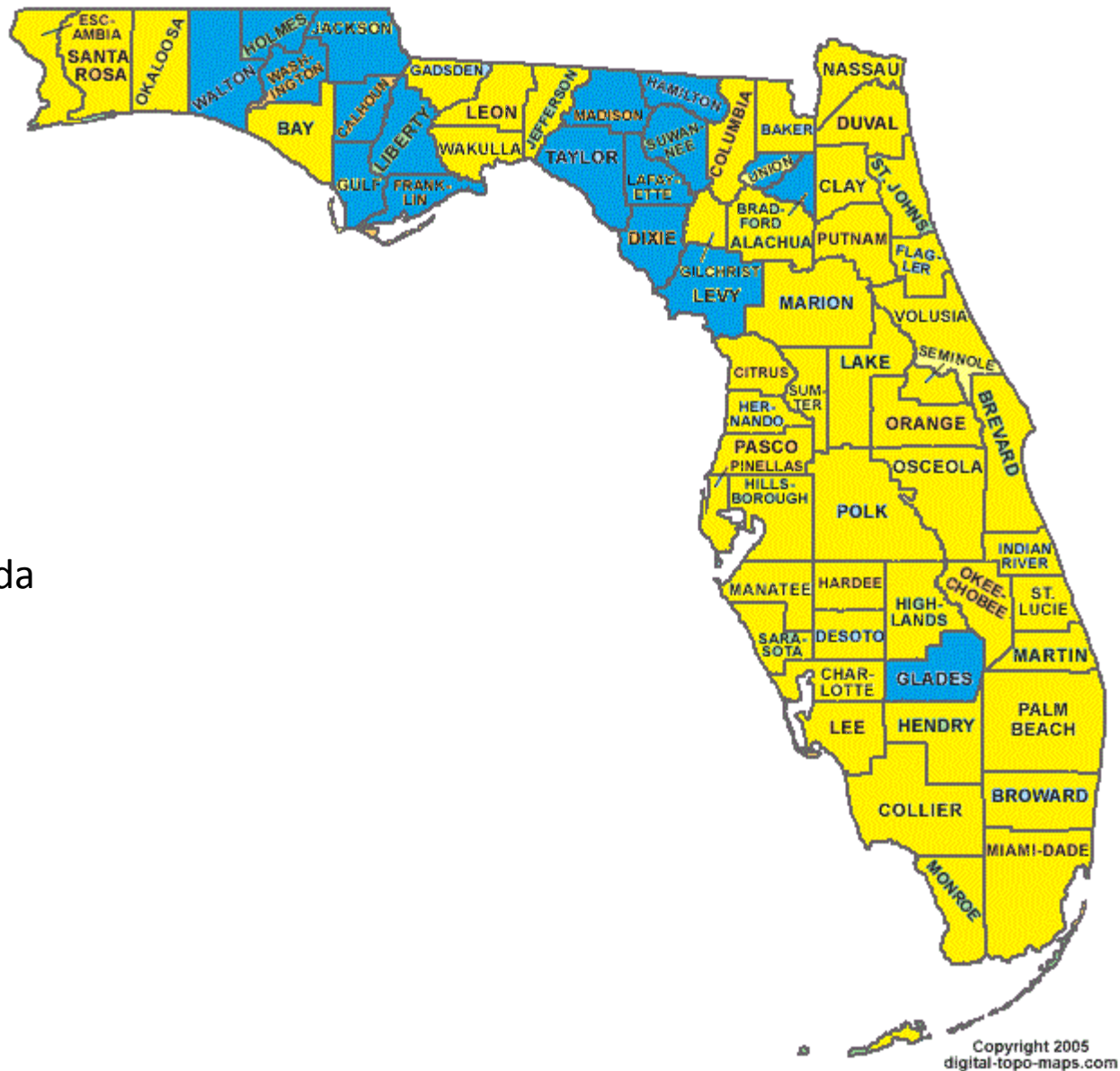
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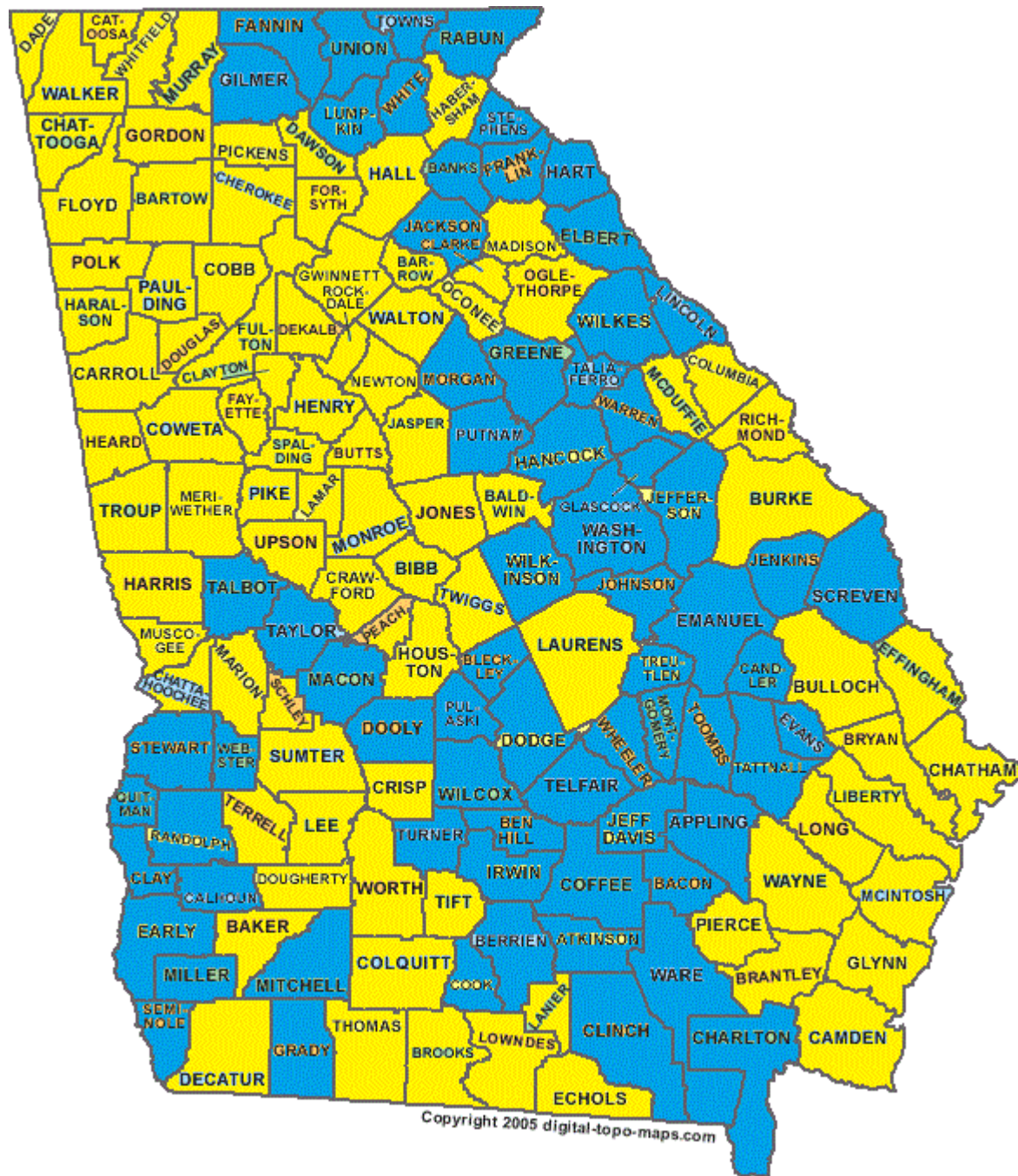
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Florida



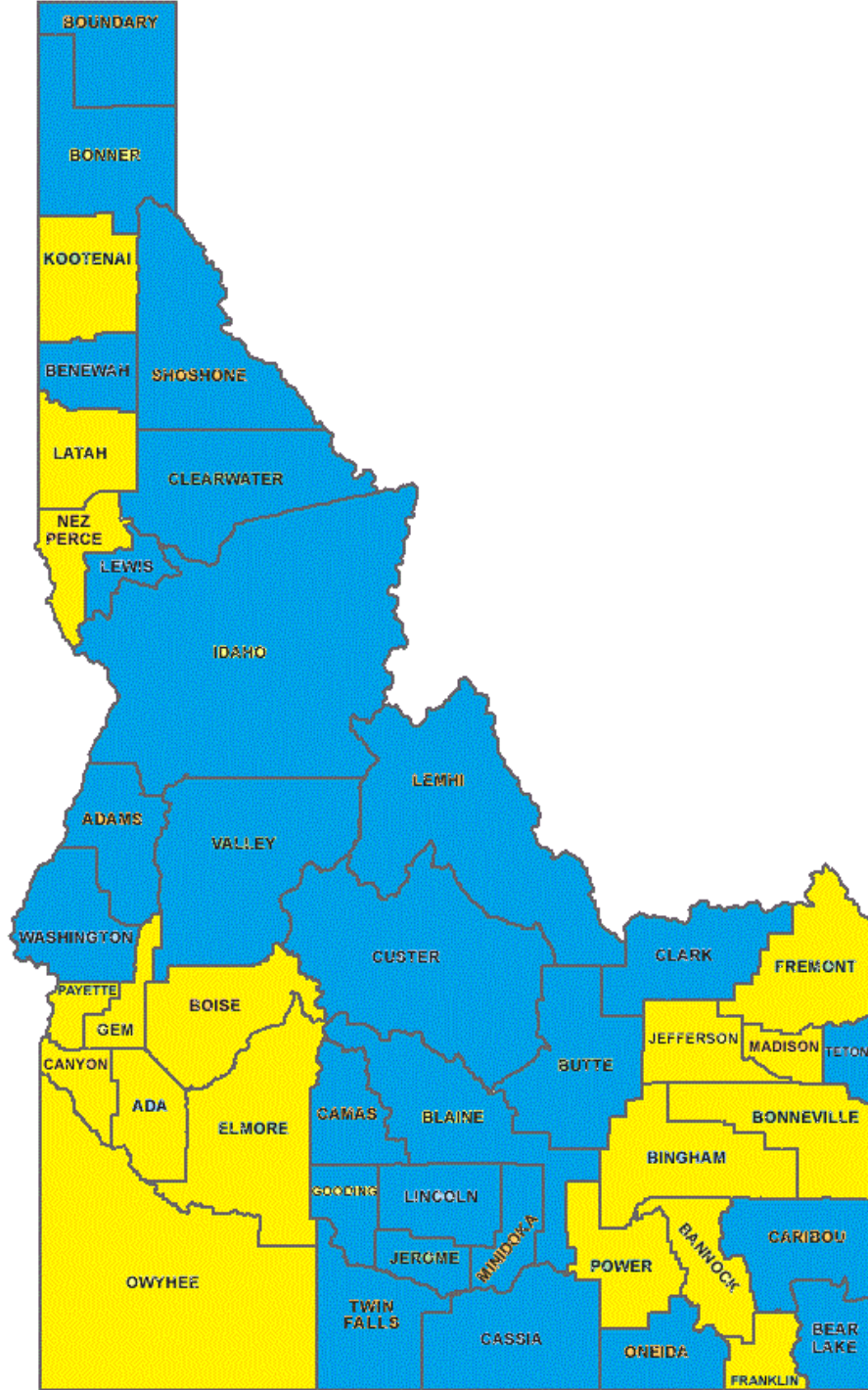
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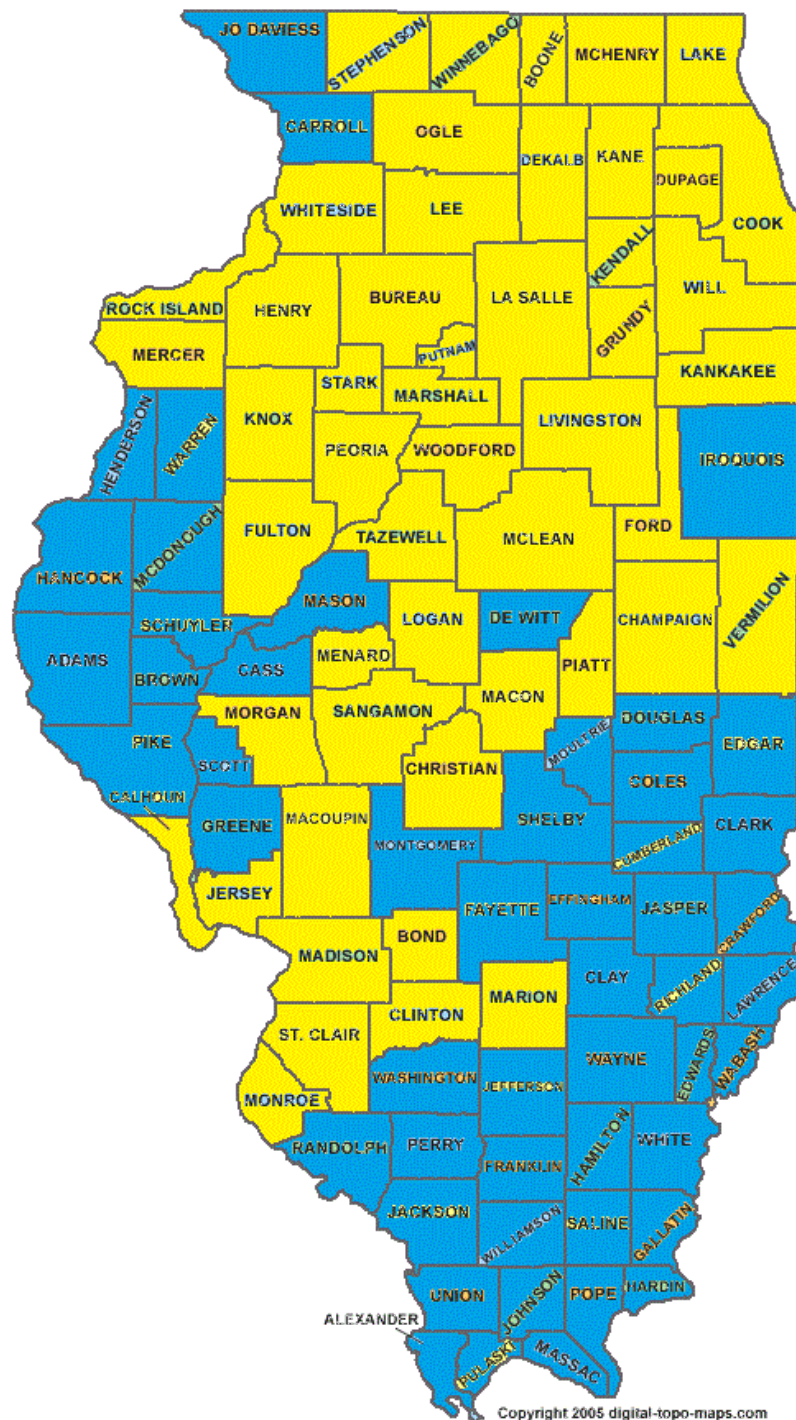


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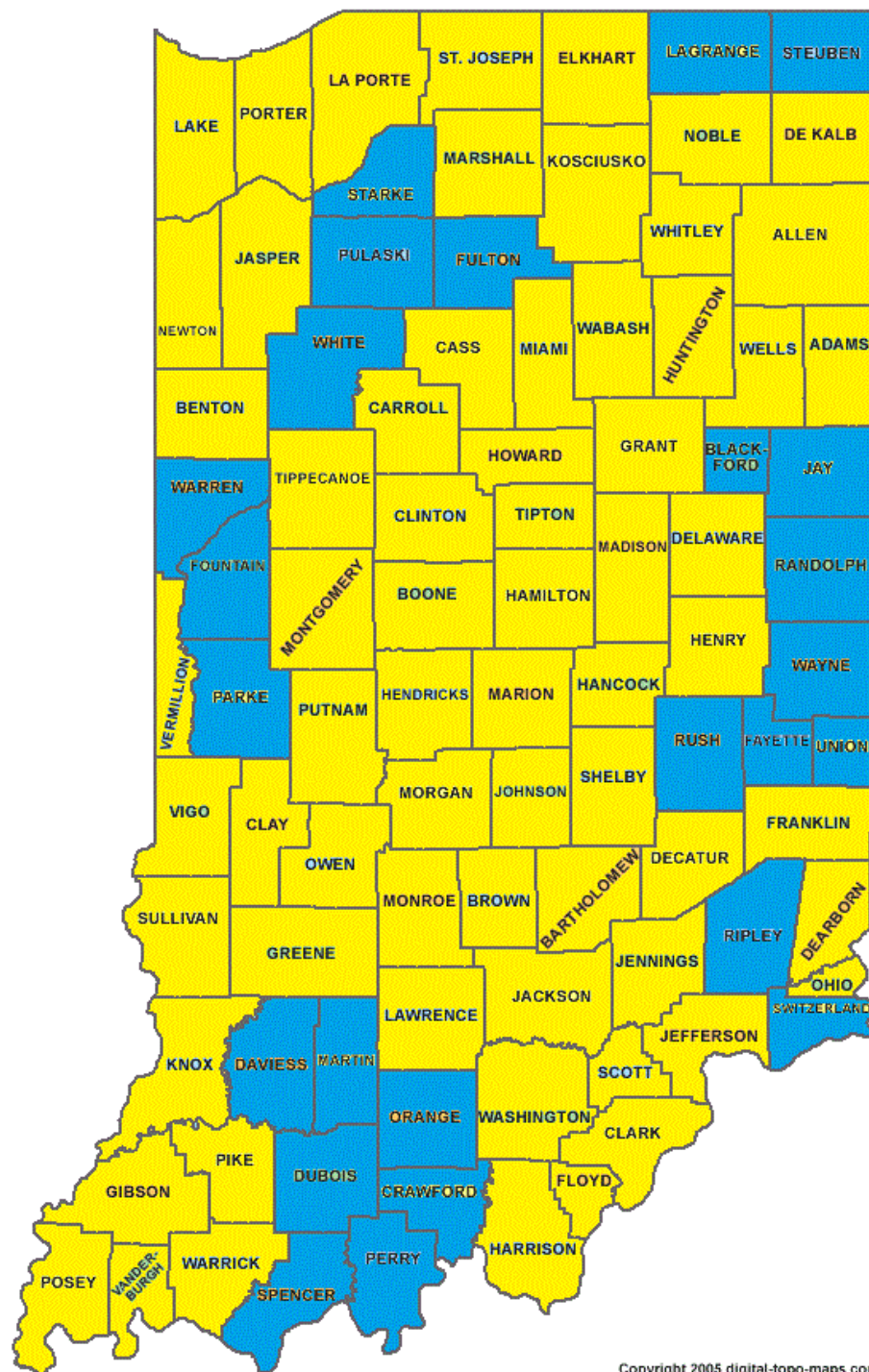
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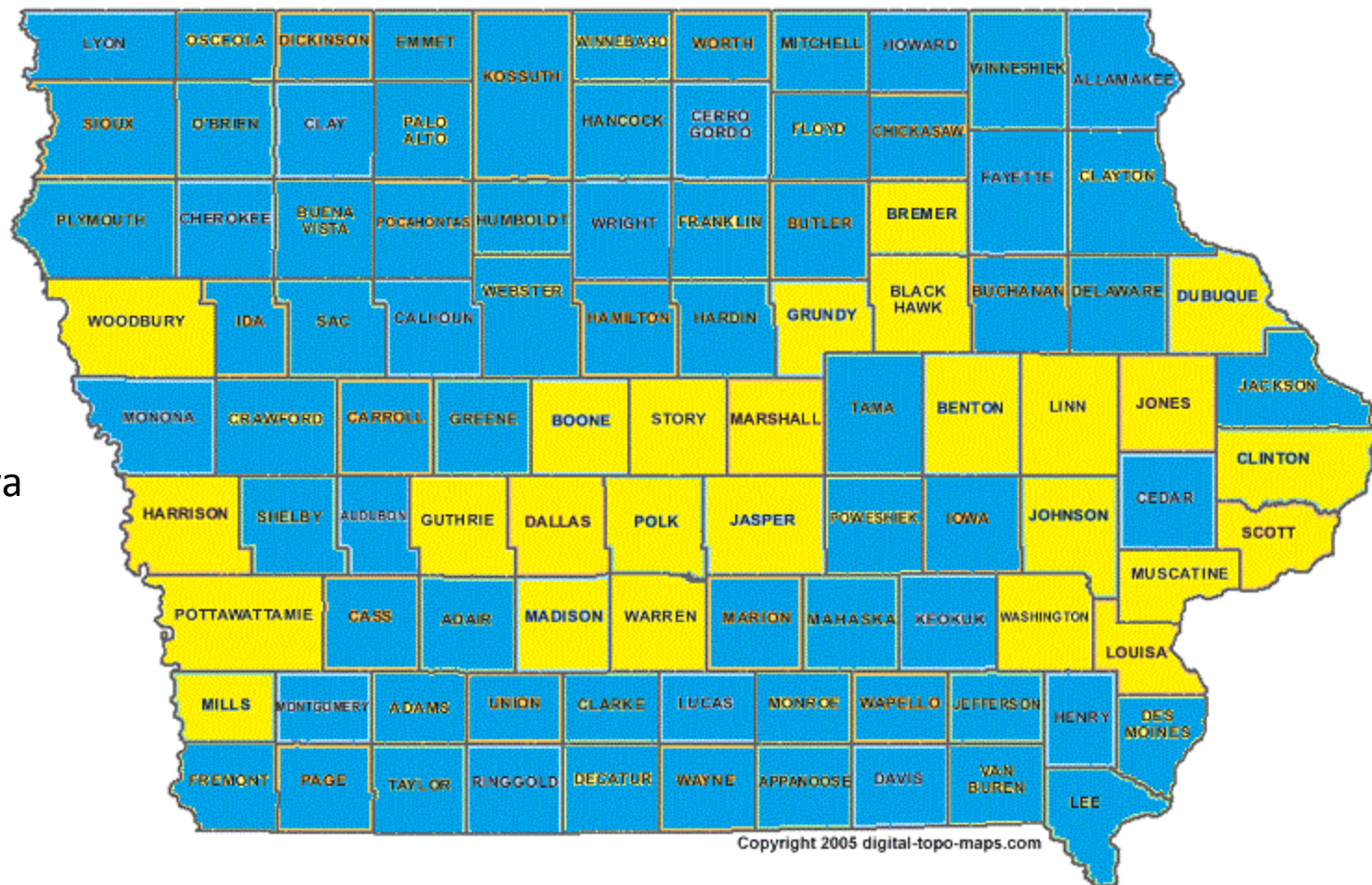
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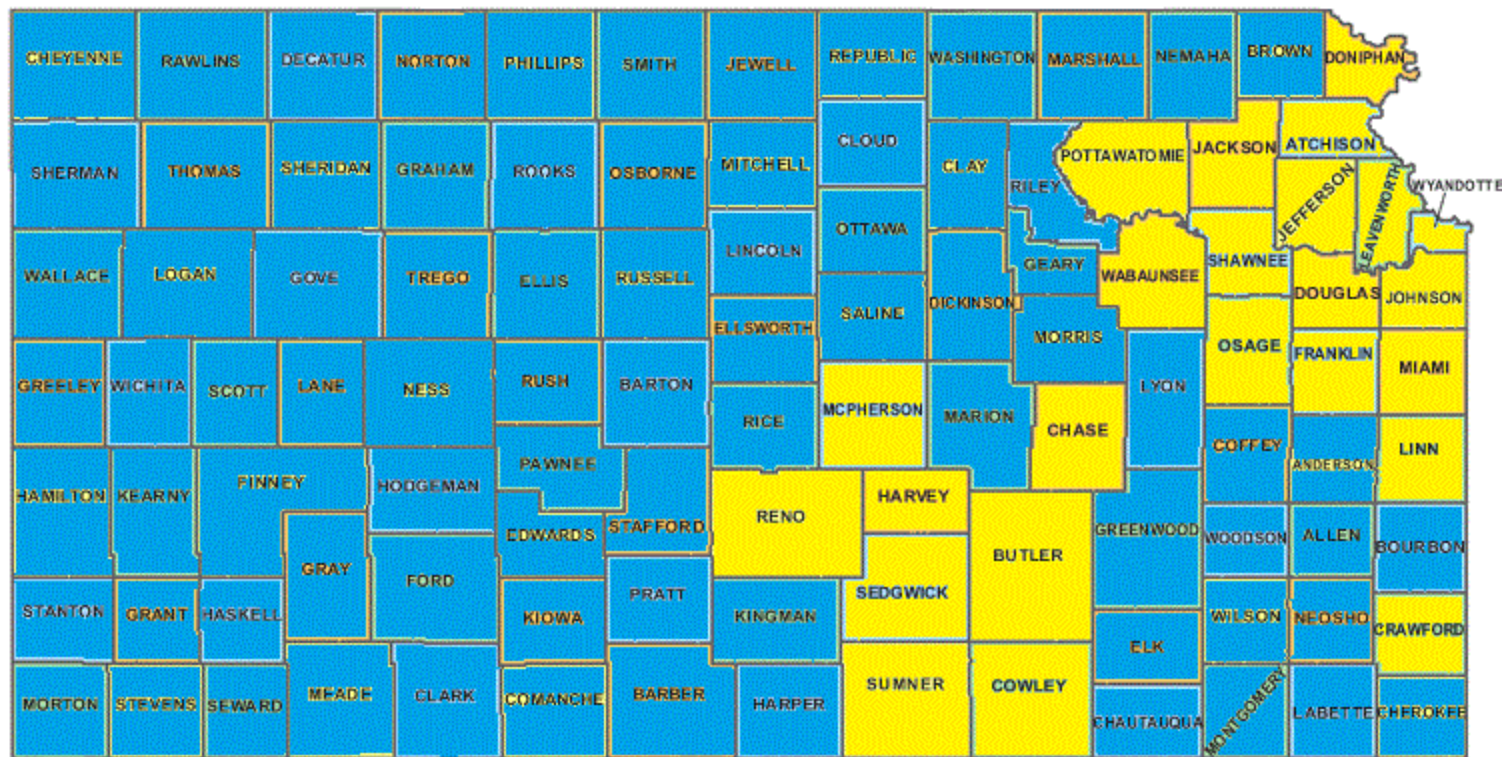
Indiana



Iowa



Kansas

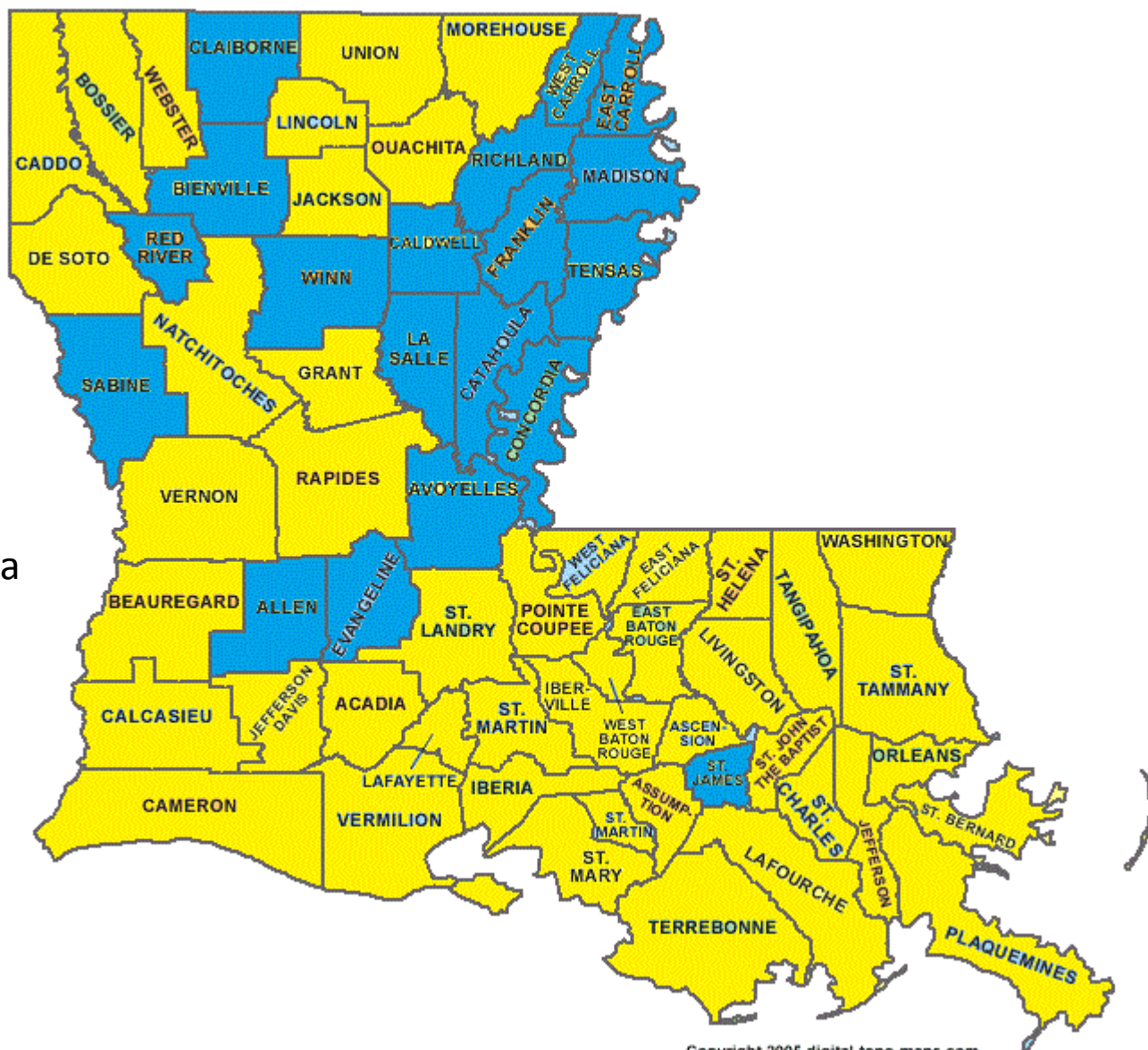


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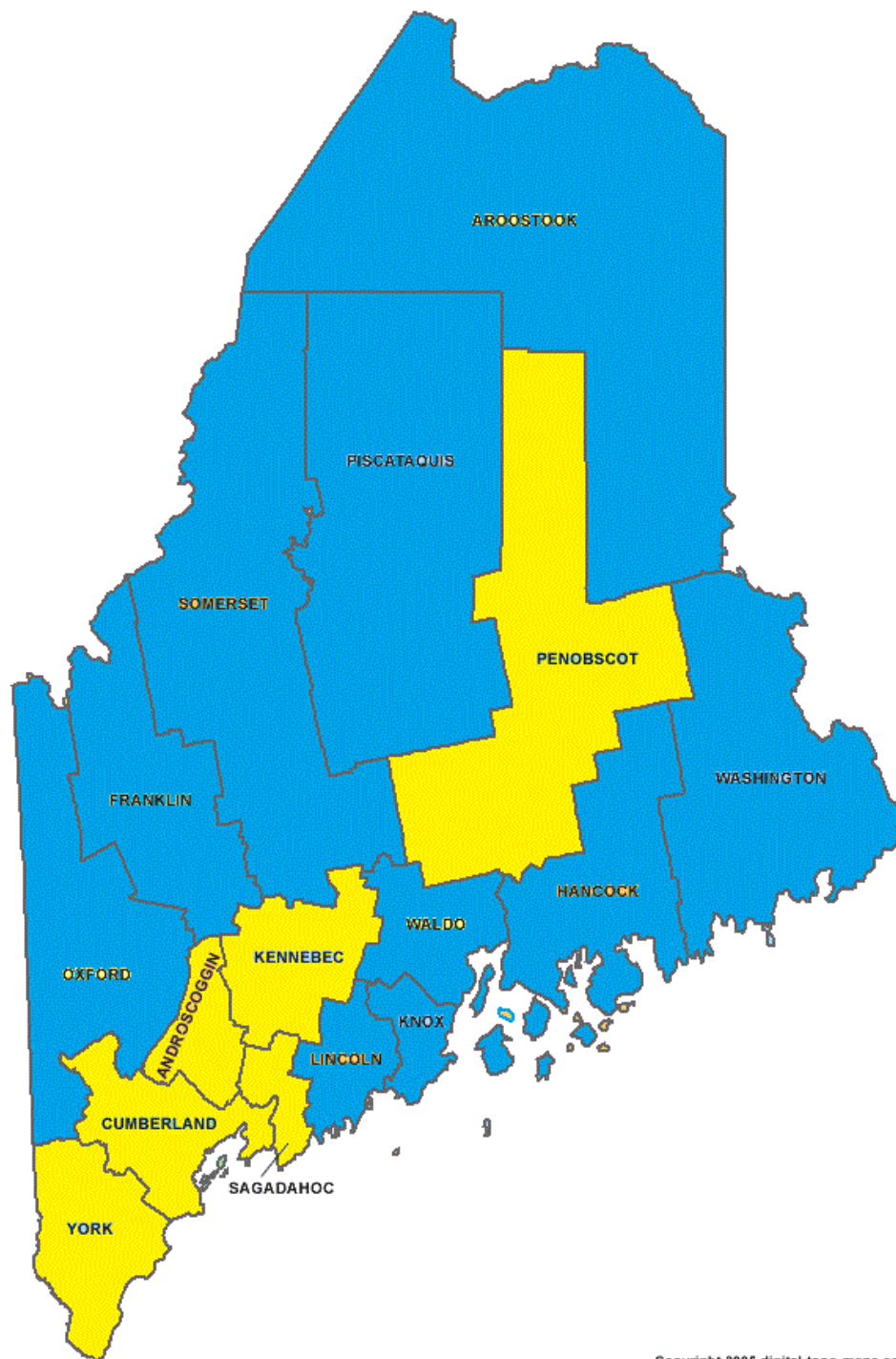
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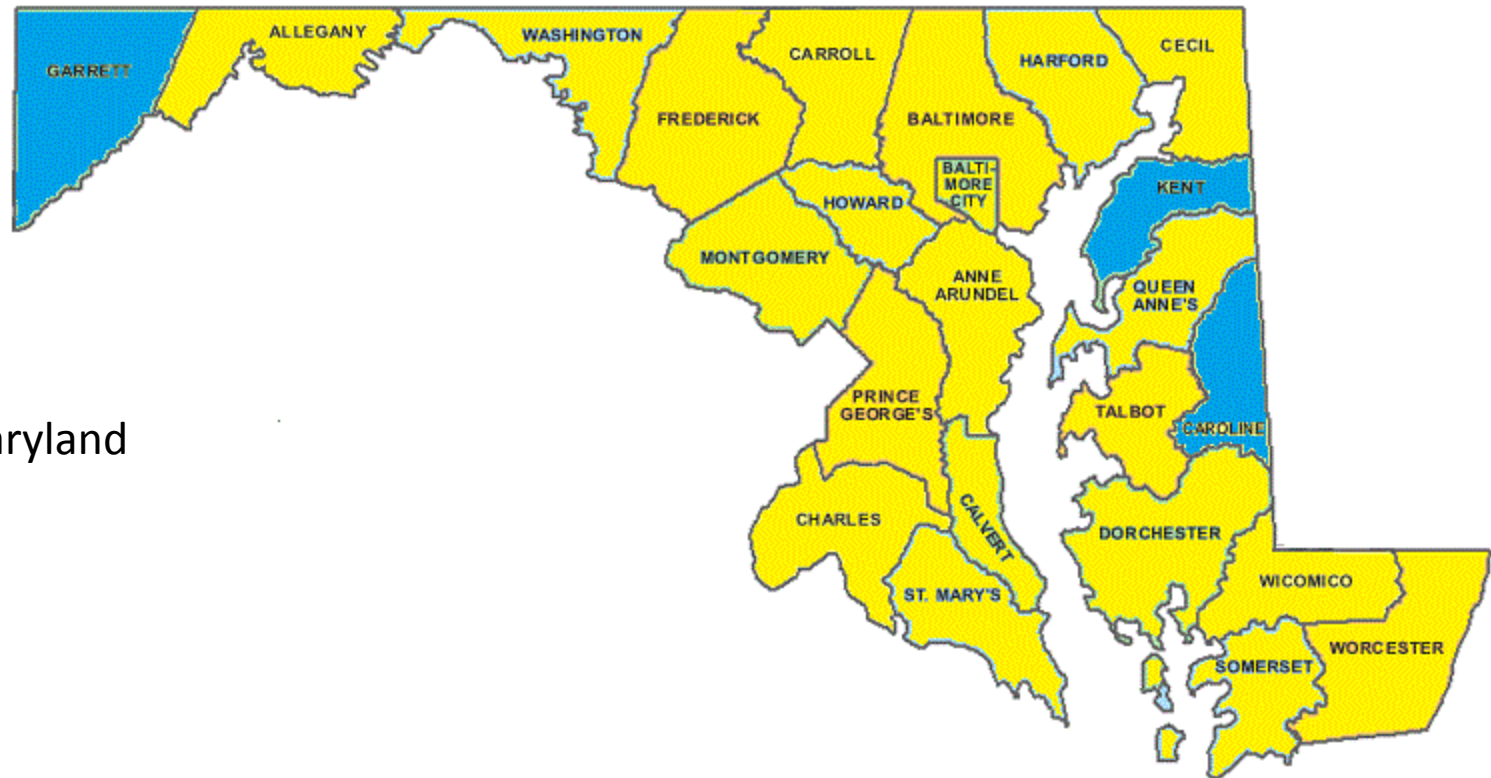
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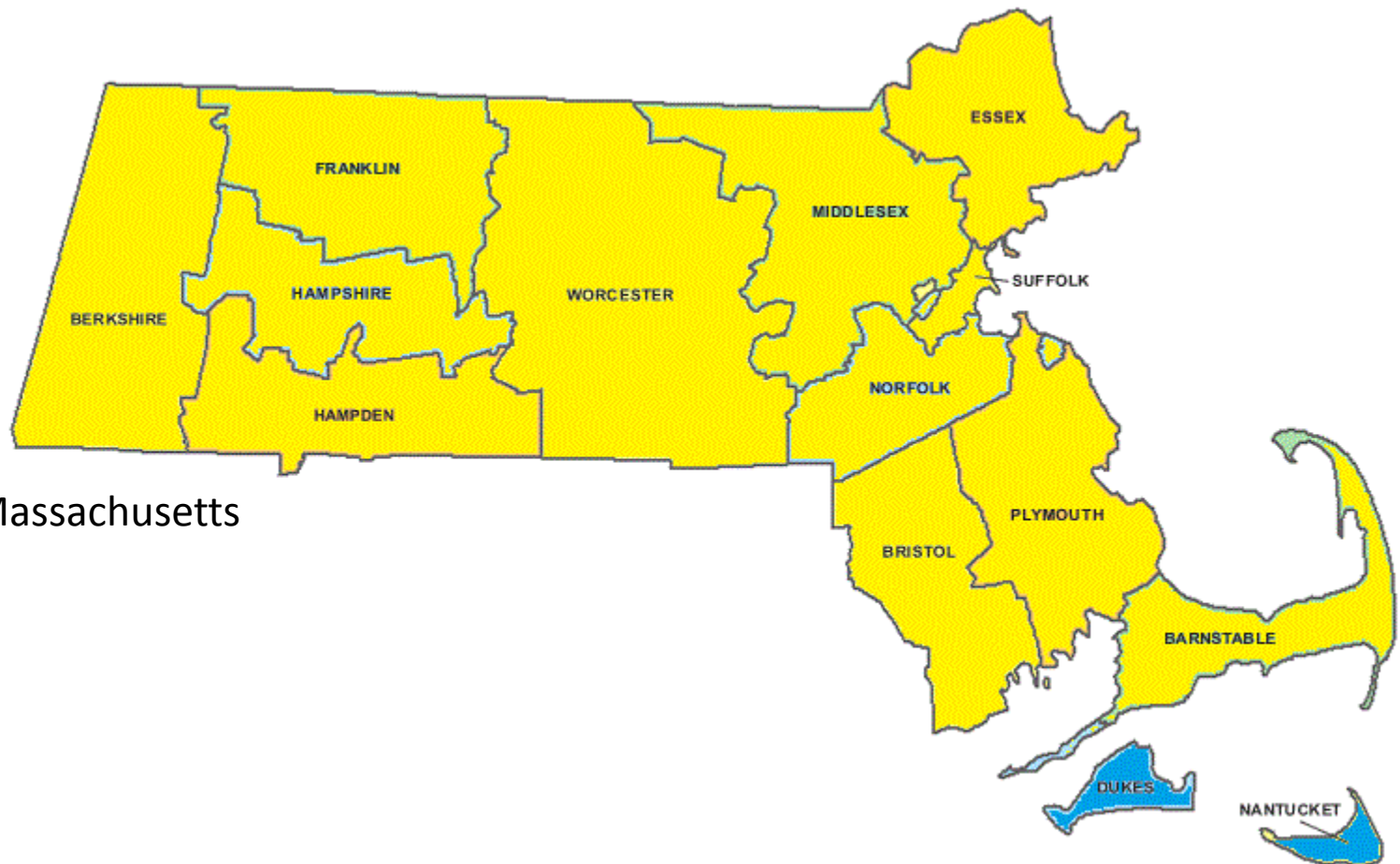
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Maryland

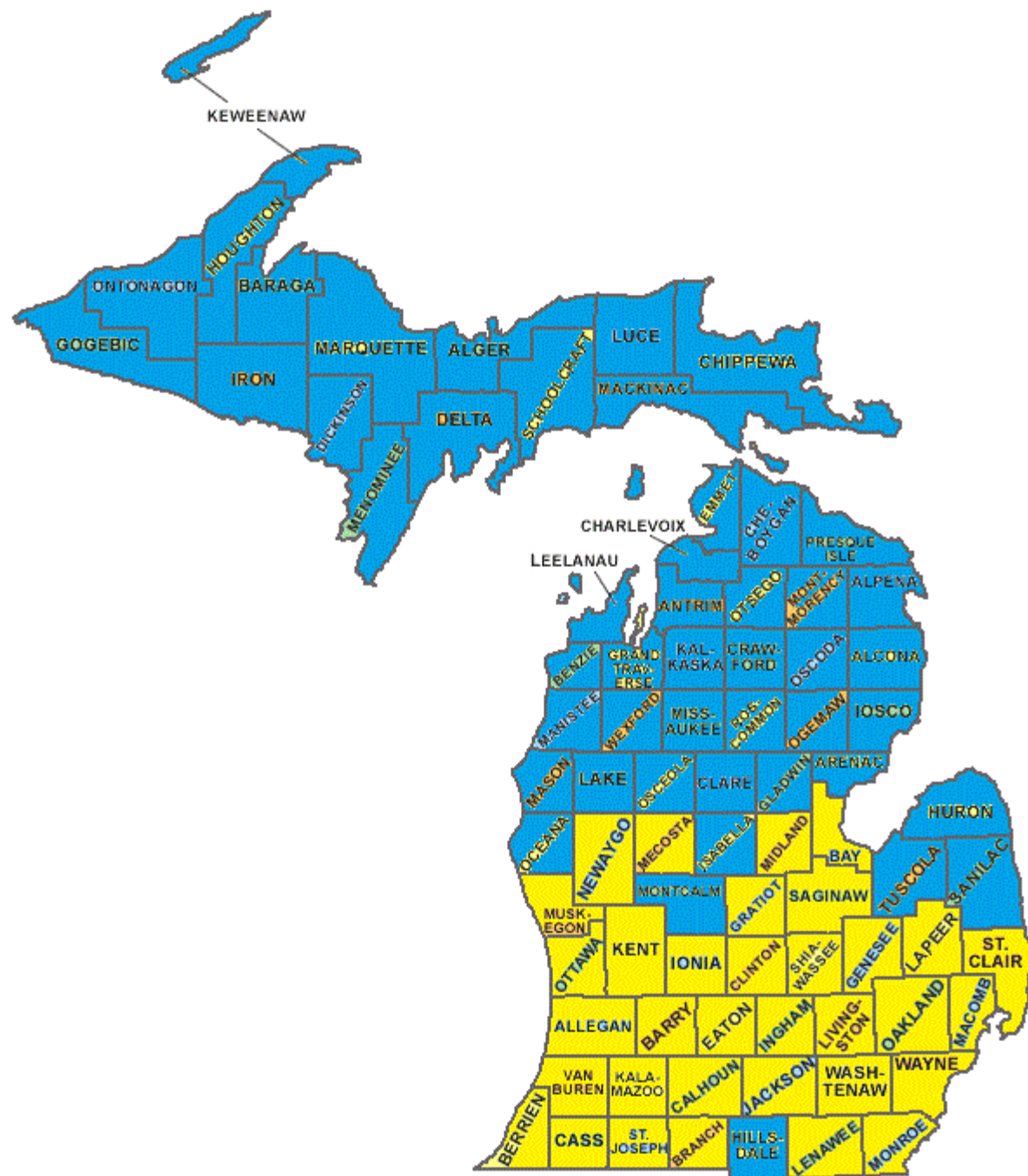


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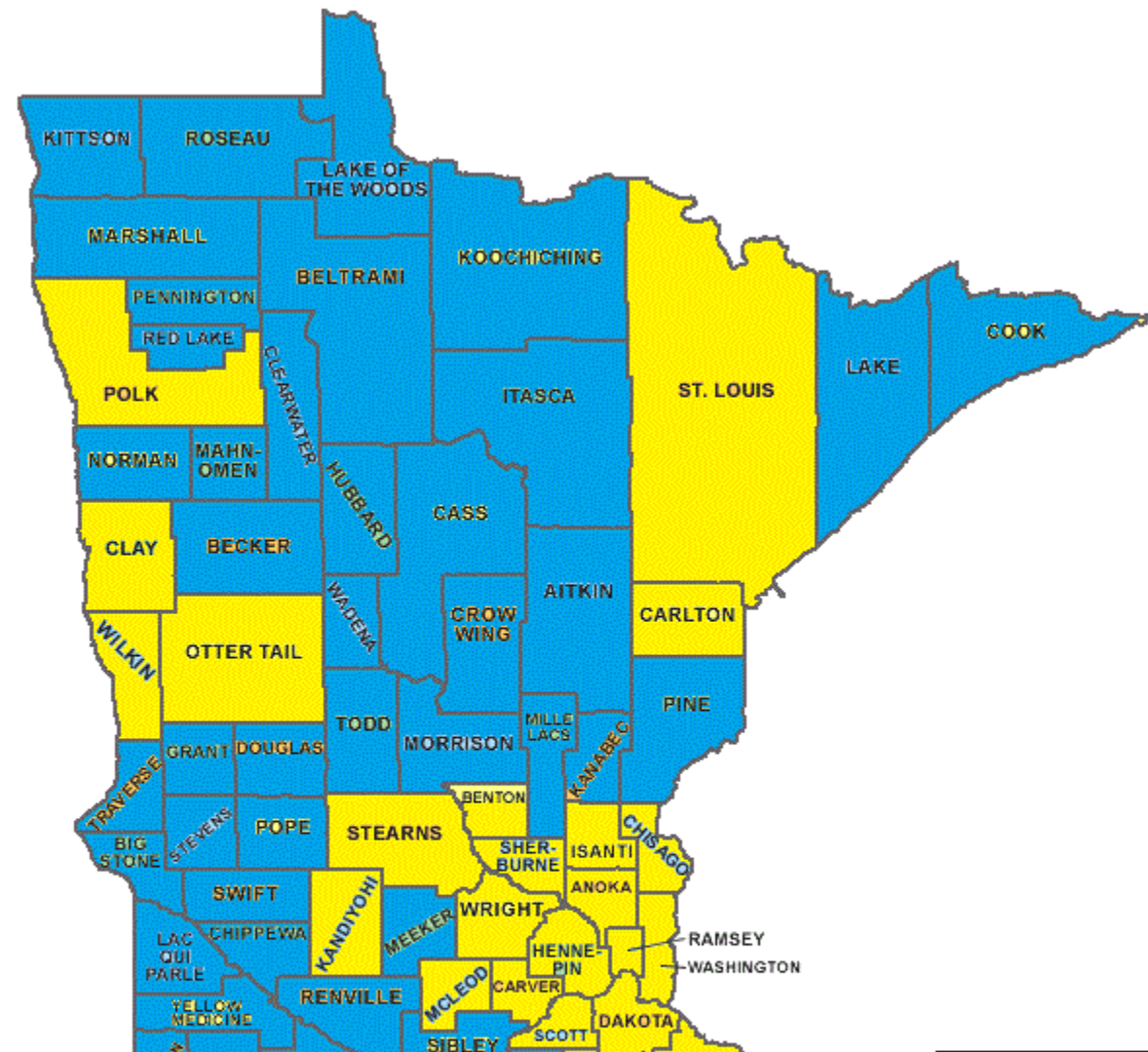


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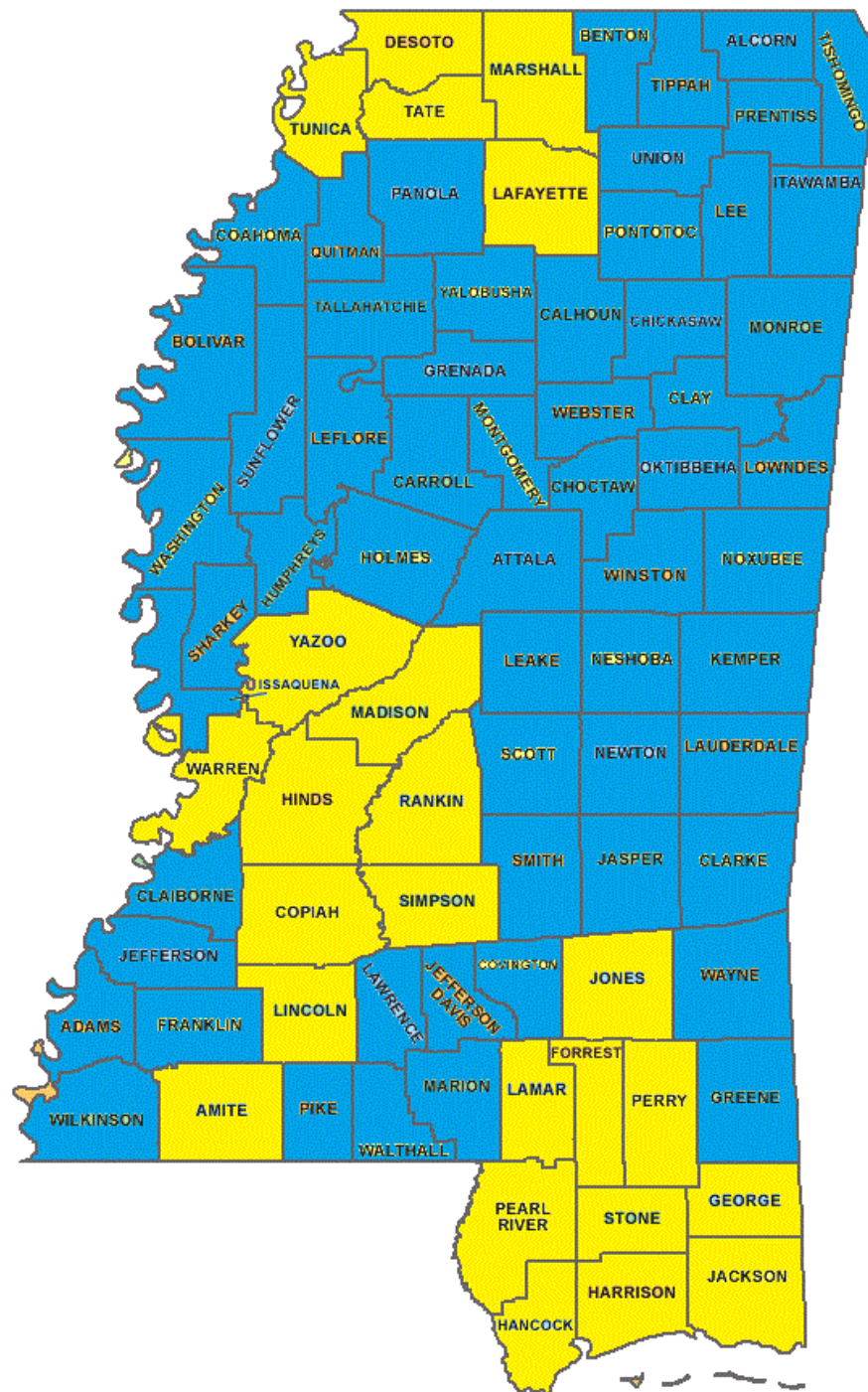
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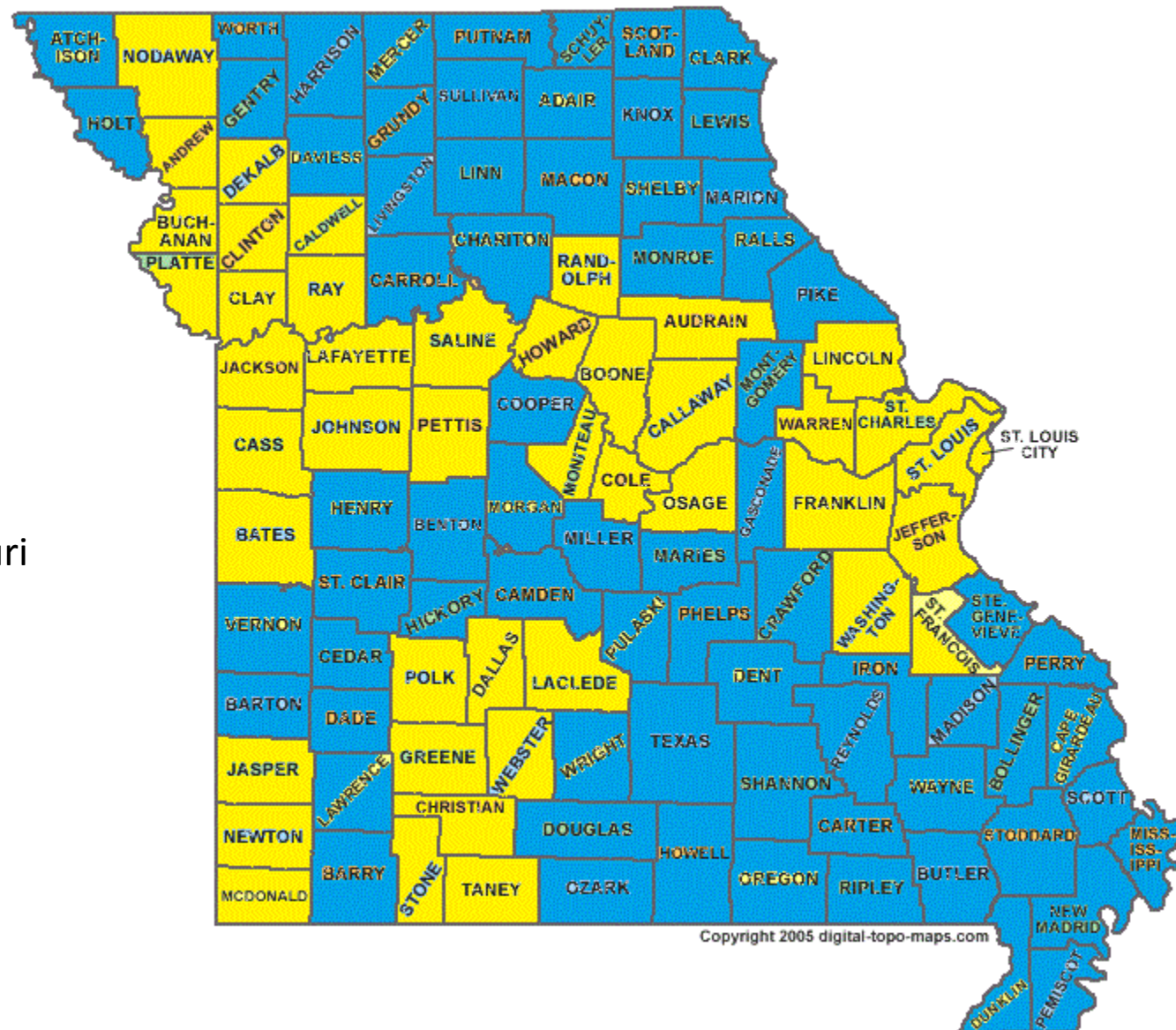
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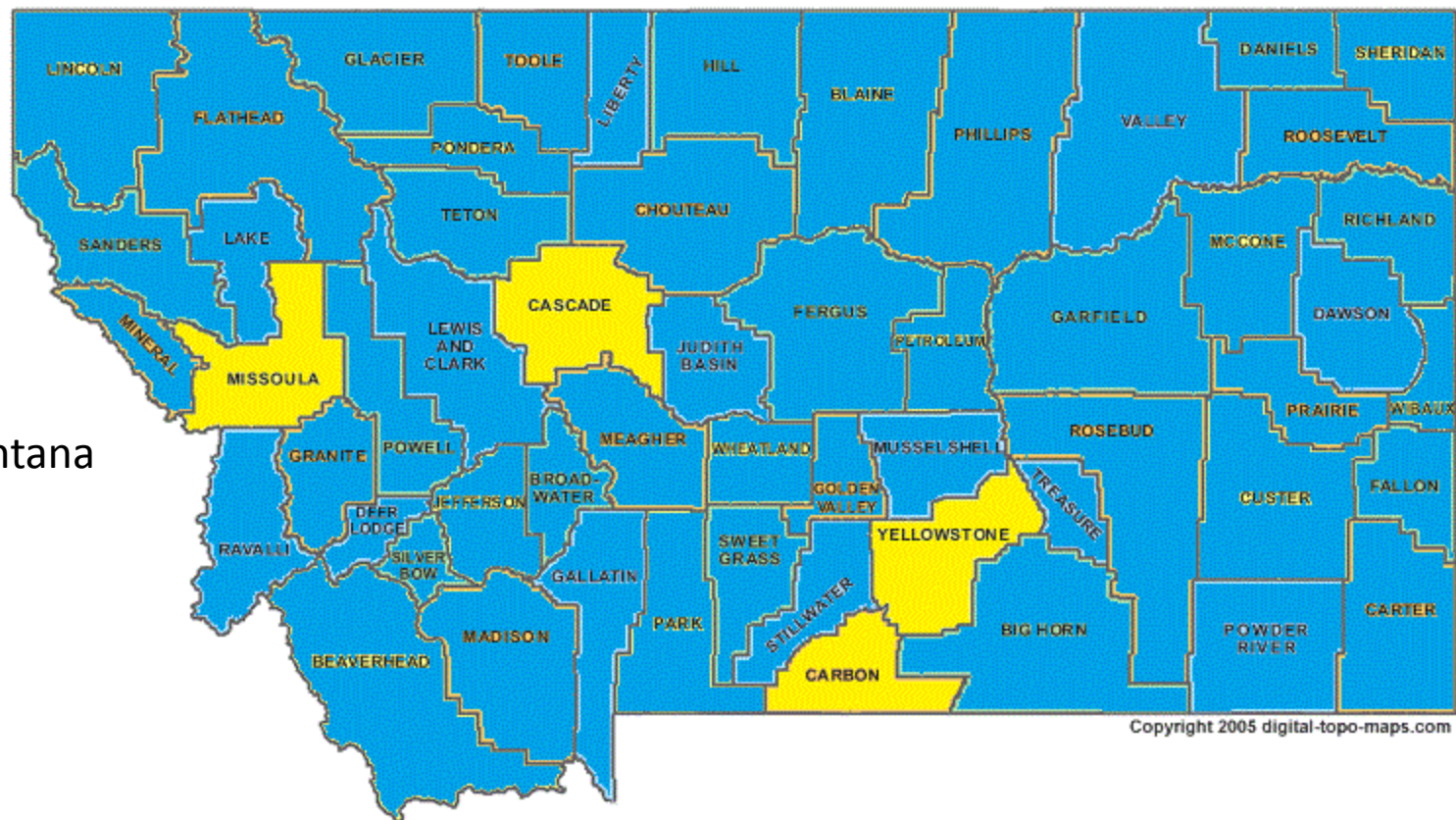
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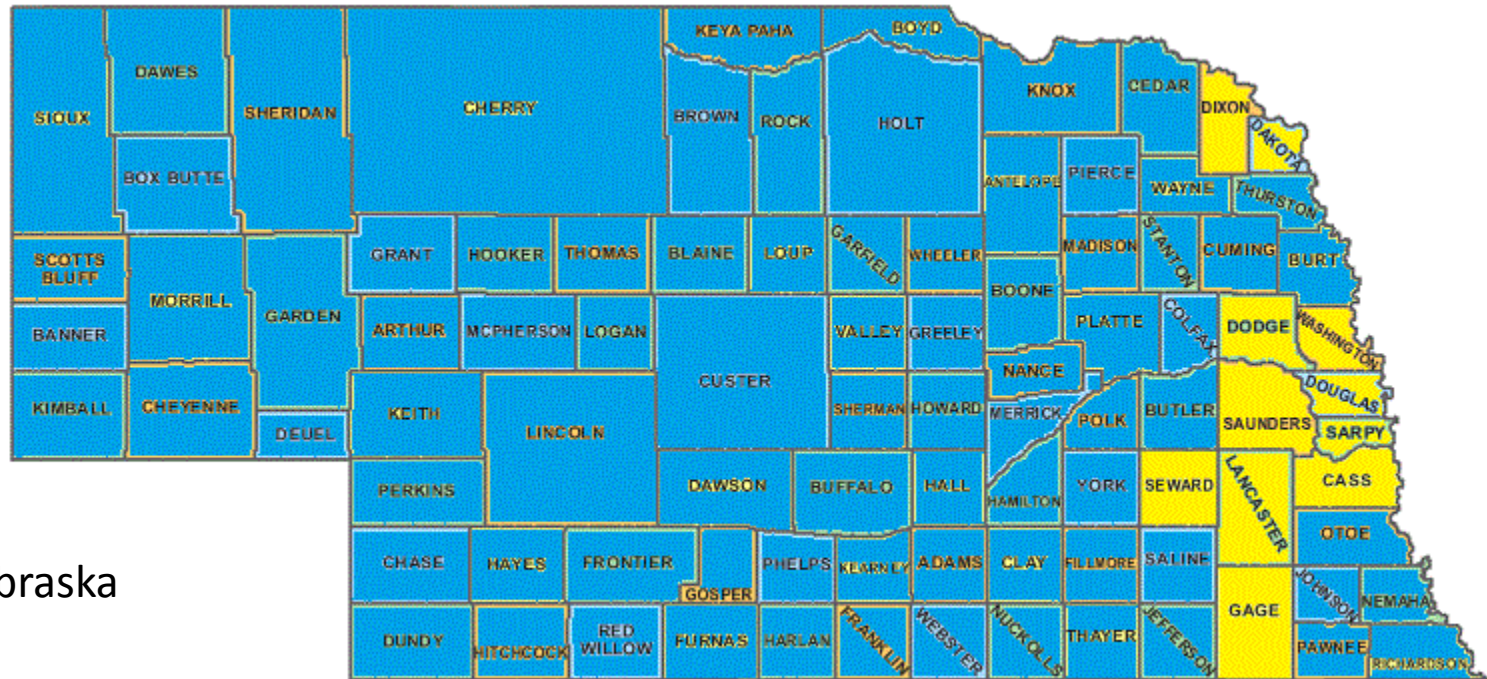
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Montana

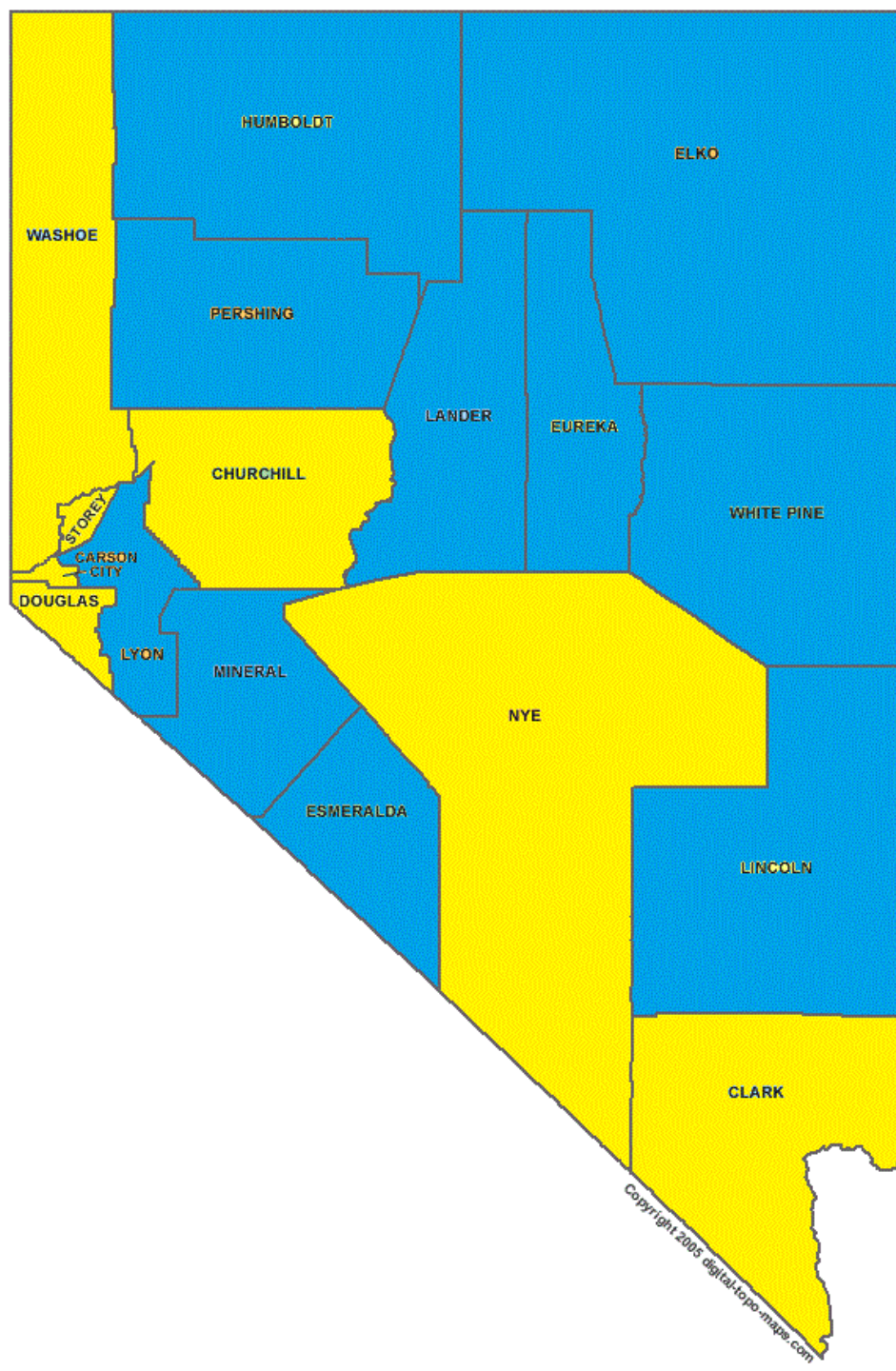


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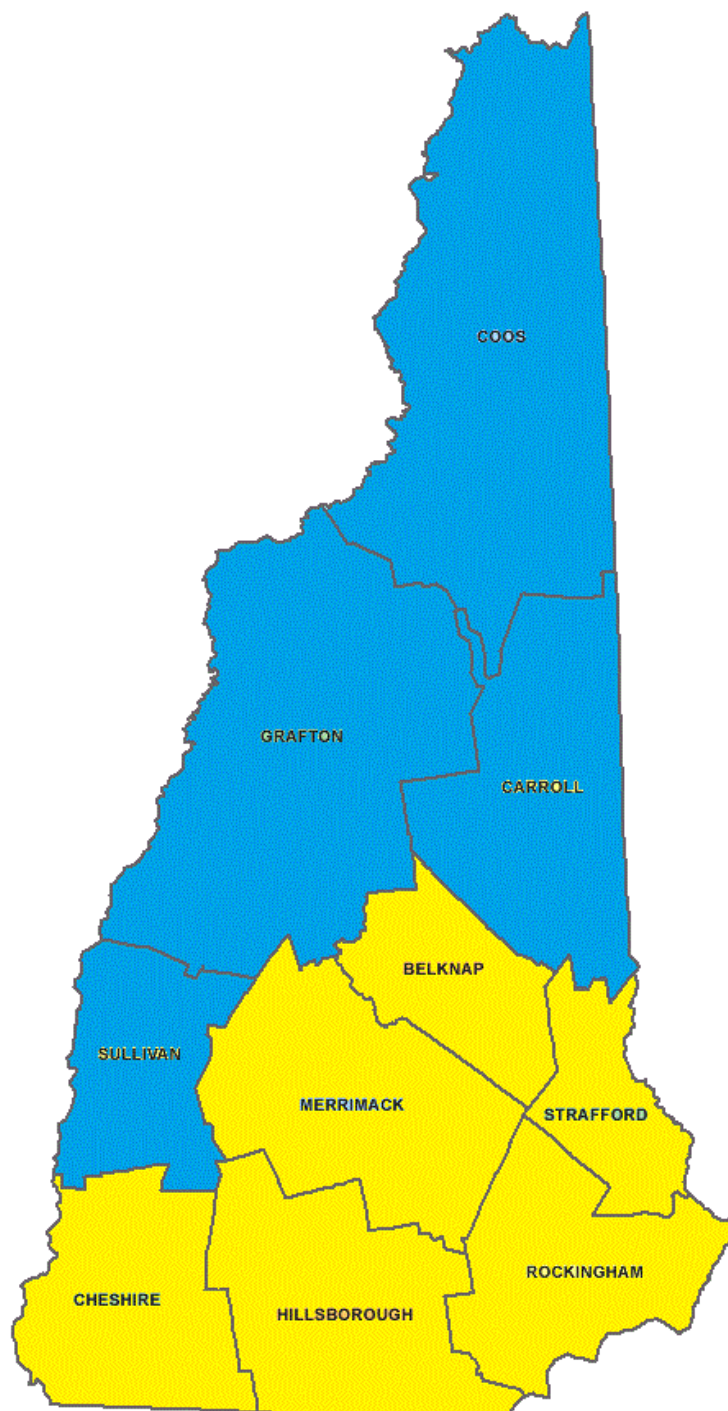


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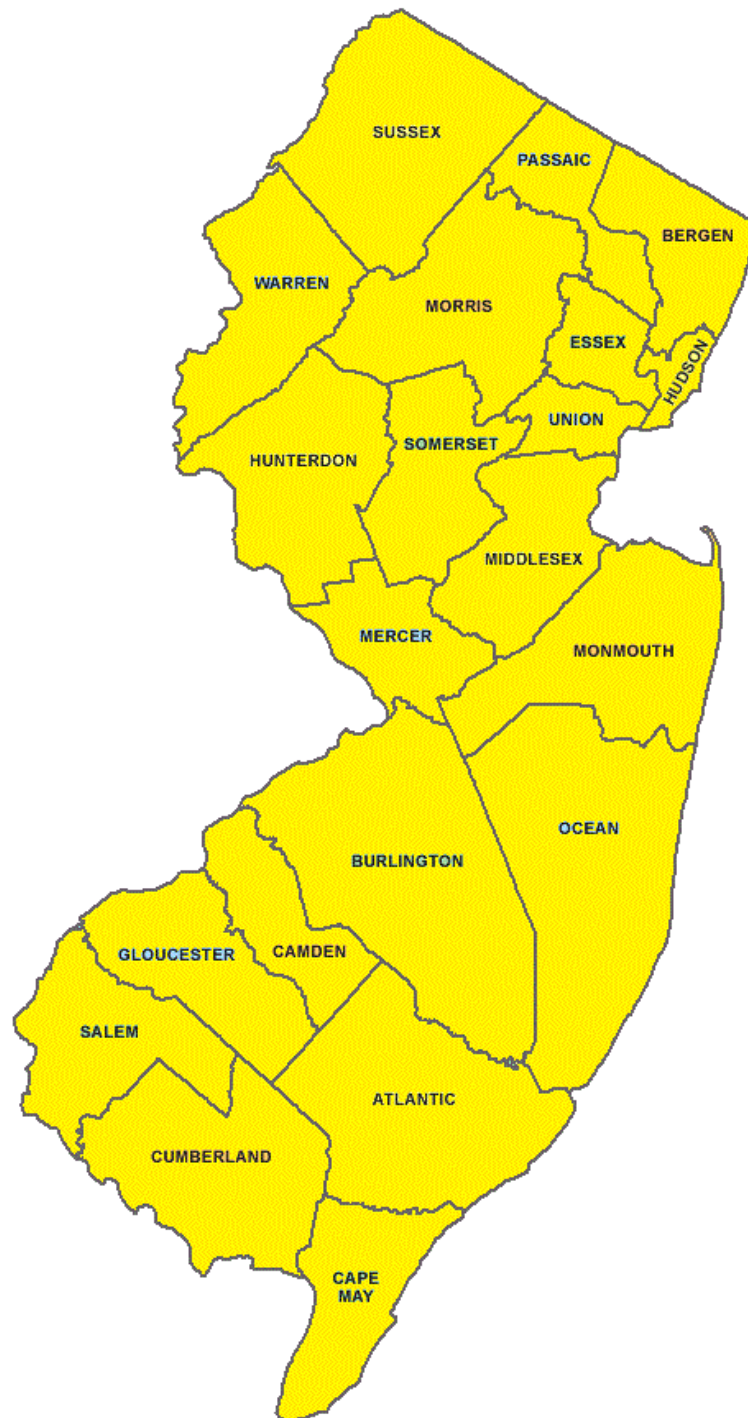
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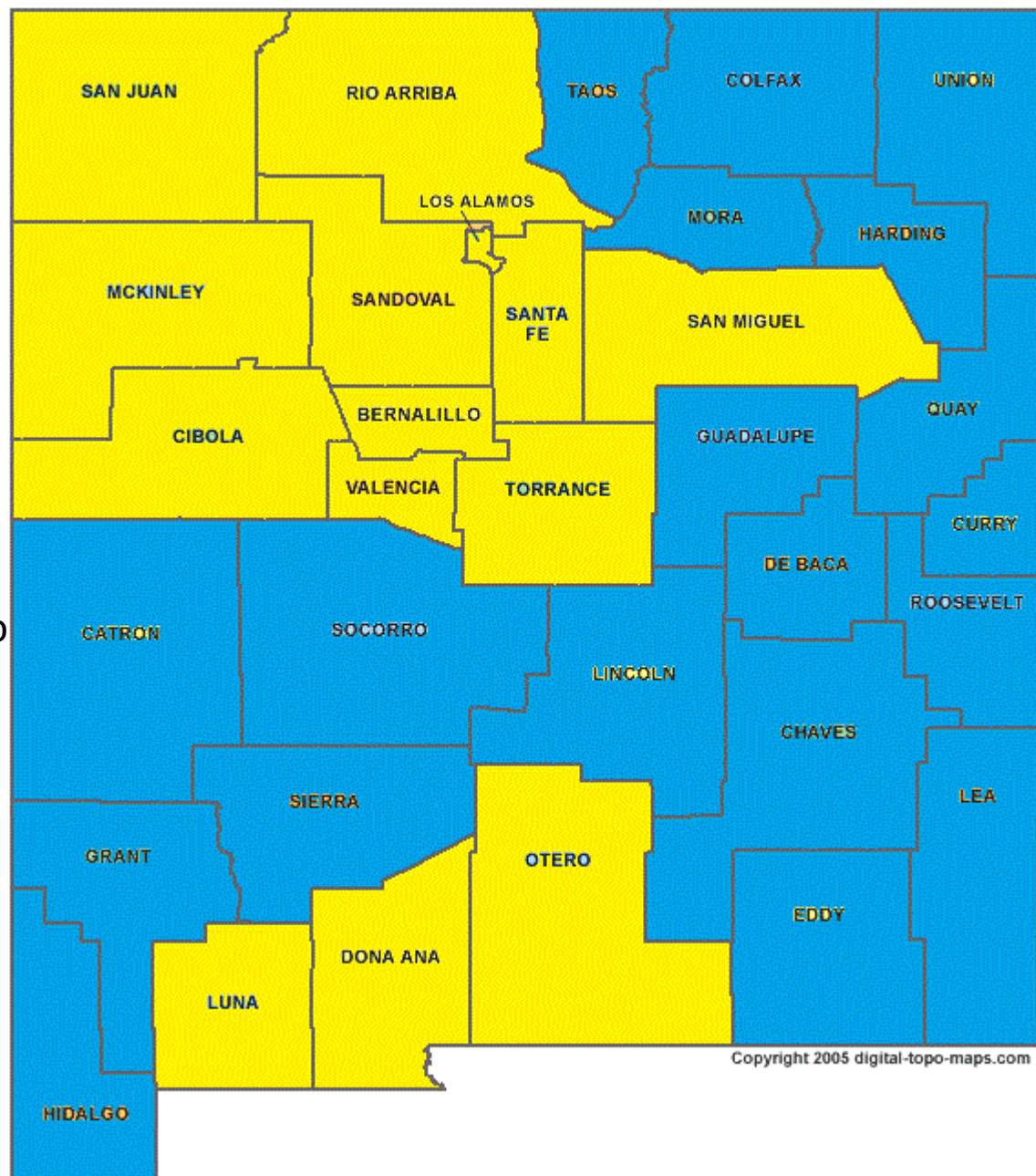
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New Jersey



New Mexico



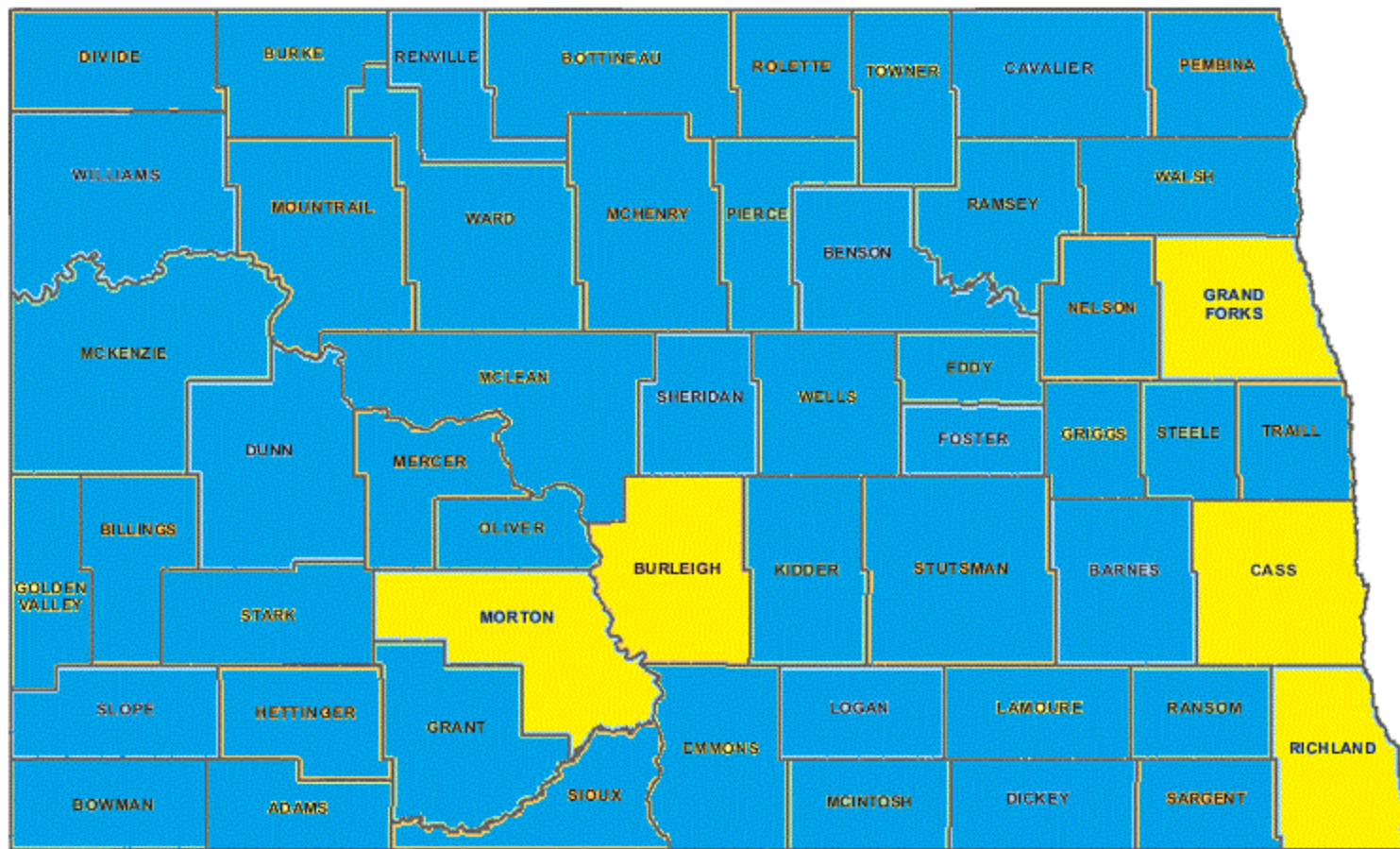
A map of New York State showing its 62 counties. The counties are color-coded: 12 are highlighted in blue, and the remaining 50 are yellow. The blue counties are: St. Lawrence, Franklin, Clinton, Essex, Hamilton, Warren, Lewis, Jefferson, Oswego, Oneida, Madison, Chenango, Otsego, Delaware, Greene, Sullivan, Ulster, and Albany. The yellow counties are: Niagara, Orleans, Monroe, Wayne, Ontario, Seneca, Cayuga, Cortland, Broome, Tioga, Chemung, Schuyler, Yates, Livingston, Erie, Wyoming, Genesee, Niagara, Chautauque, Cattaraugus, Allegany, Steuben, Onondaga, Herkimer, Fulton, Saratoga, Schenectady, Montgomery, Washington, Rensselaer, Columbia, Dutchess, Putnam, Westchester, Rockland, Bronx, New York, Queens, Kings, Richmond, Nassau, and Suffolk.

North Carolina

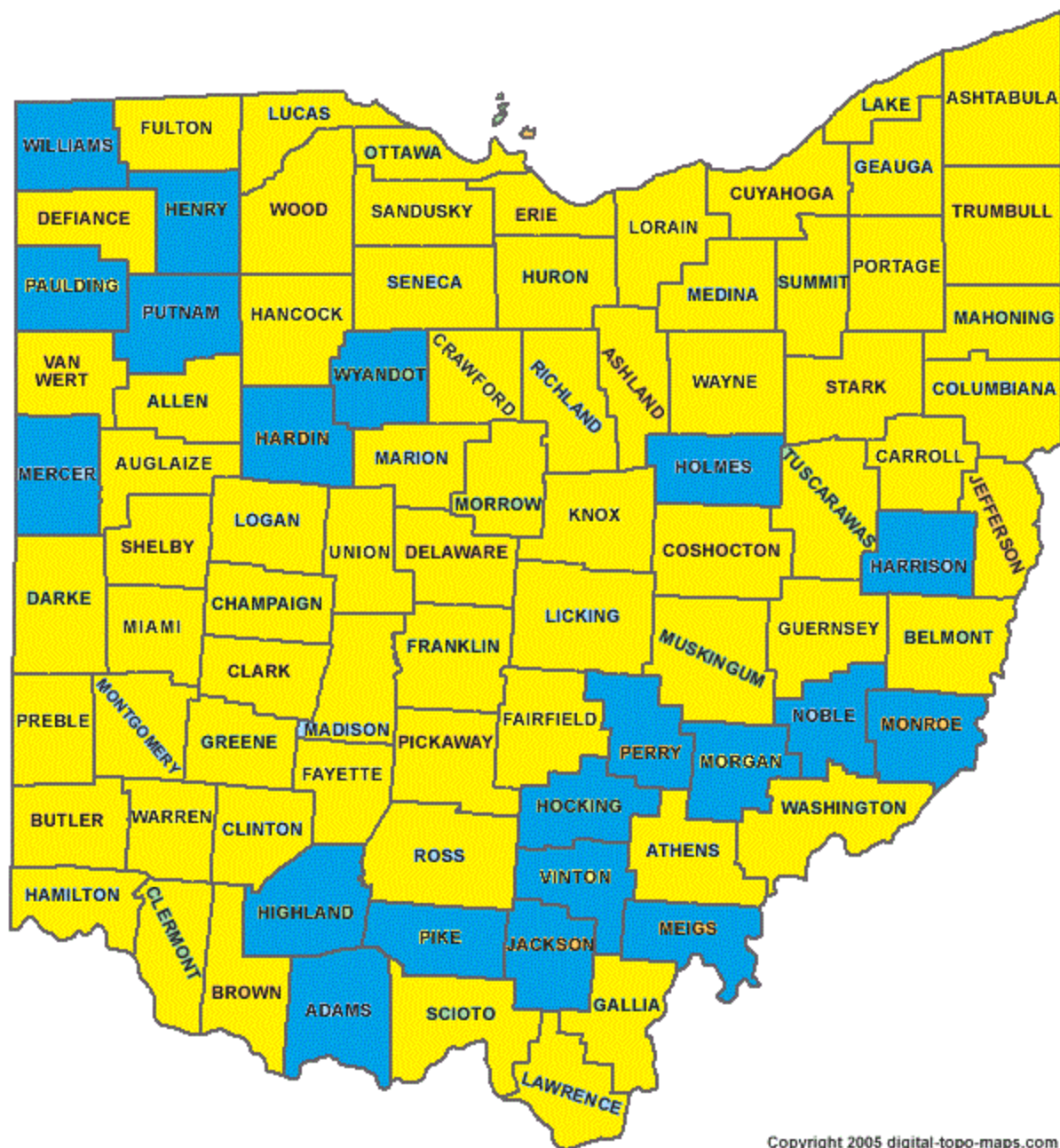
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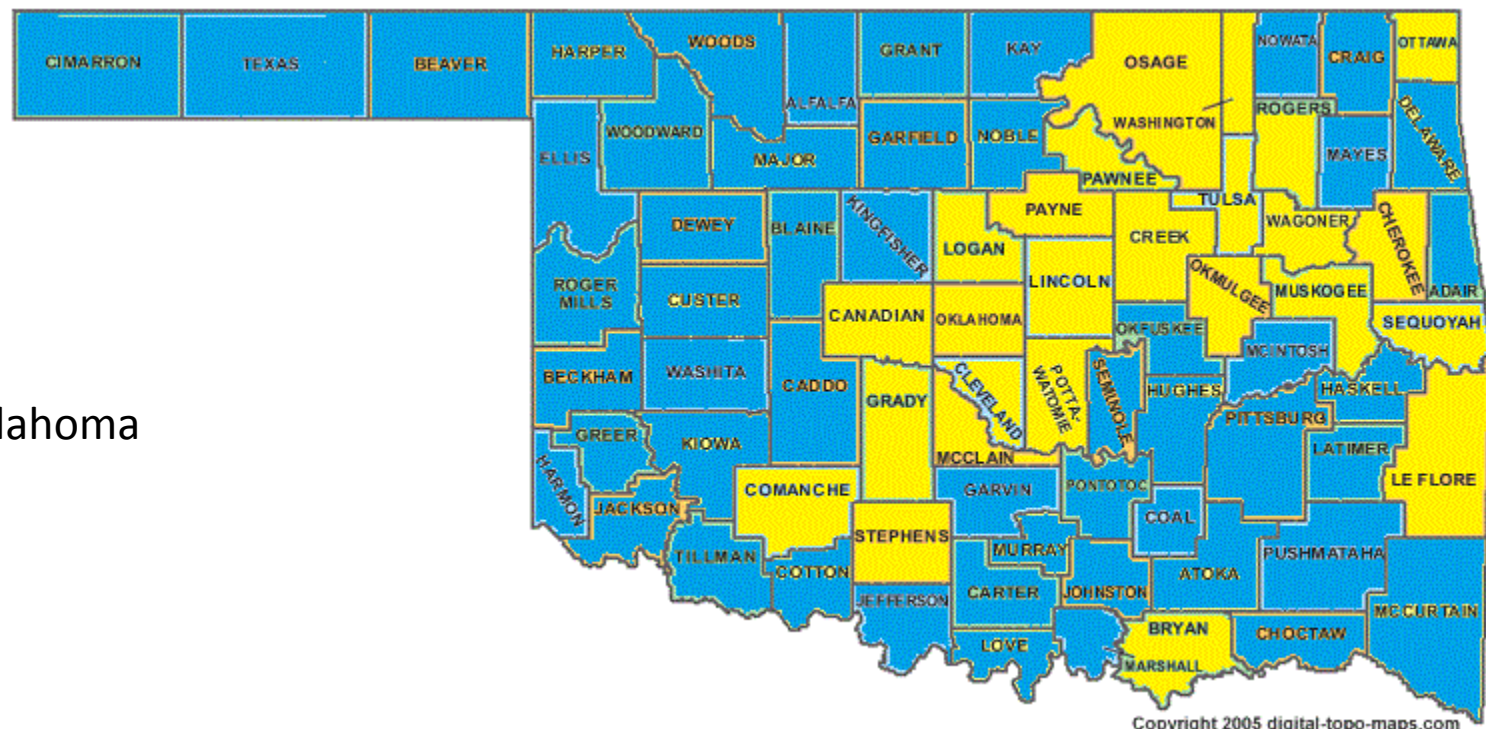
North Dakota



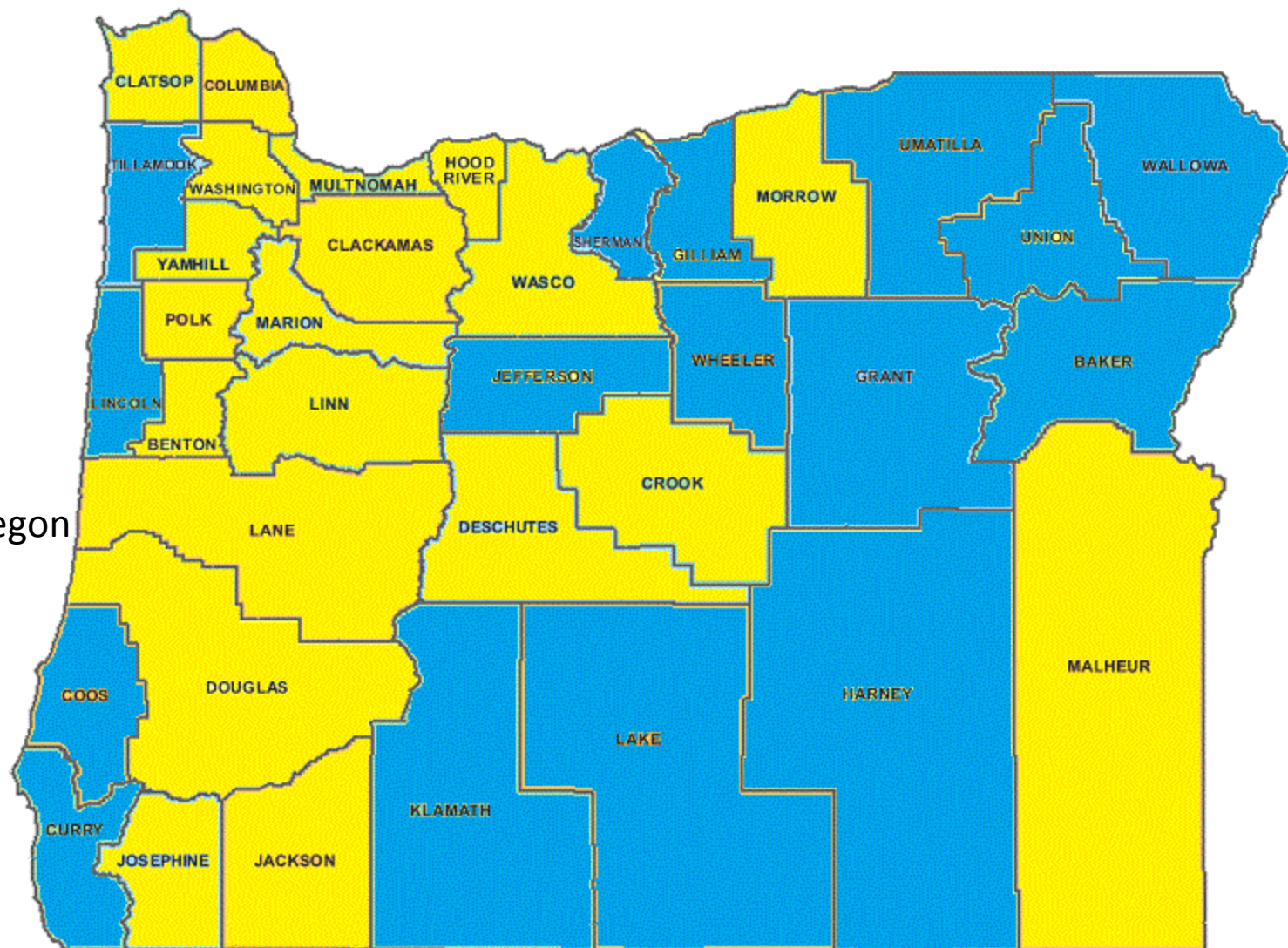
Ohio



Oklahoma



Oregon



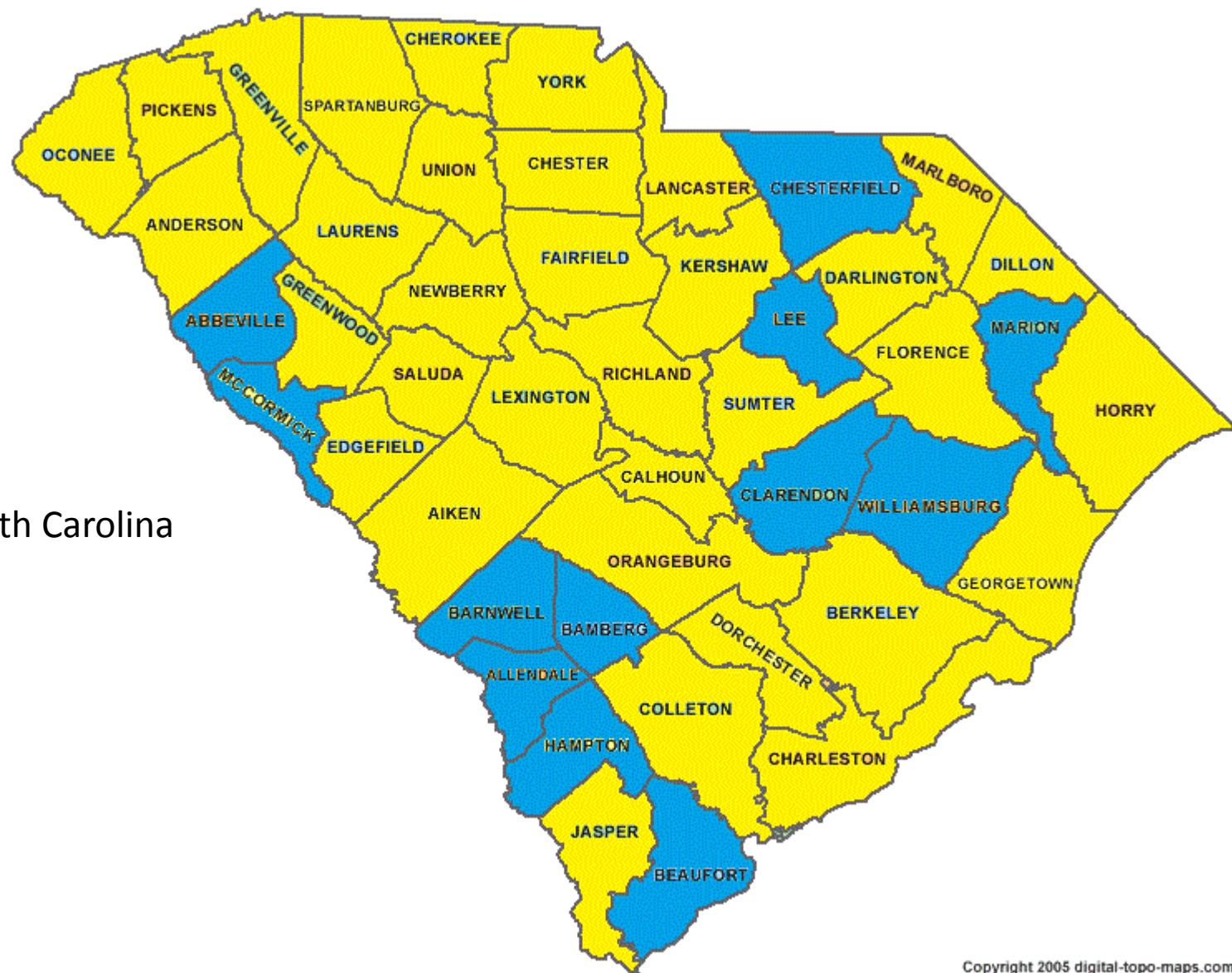
A map of Pennsylvania showing its 67 counties. The counties are colored based on three regions: Blue (Northeast), Yellow (Central), and Green (Southwest). The Blue region includes Erie, Warren, McKean, Potter, Tioga, Bradford, Susquehanna, Wayne, Forest, Elk, Cameron, Sullivan, Wyoming, Lackawanna, and Pike. The Yellow region includes Crawford, Mercer, Venango, Clarion, Jefferson, Clearfield, Clinton, Lycoming, Montour, Luzerne, Monroe, Carbon, Northampton, Schuylkill, Lehigh, Berks, Bucks, Montgomery, Chester, Delaware, Philadelphia, York, Adams, Franklin, Fulton, Bedford, Somerset, Fayette, Washington, Westmoreland, Cambria, Blair, Huntingdon, Mifflin, Snyder, Northumberland, Dauphin, Perry, Cumberland, Lancaster, and Greene. The Green region includes Beaver, Butler, Armstrong, Indiana, Allegheny, and Lawrence.

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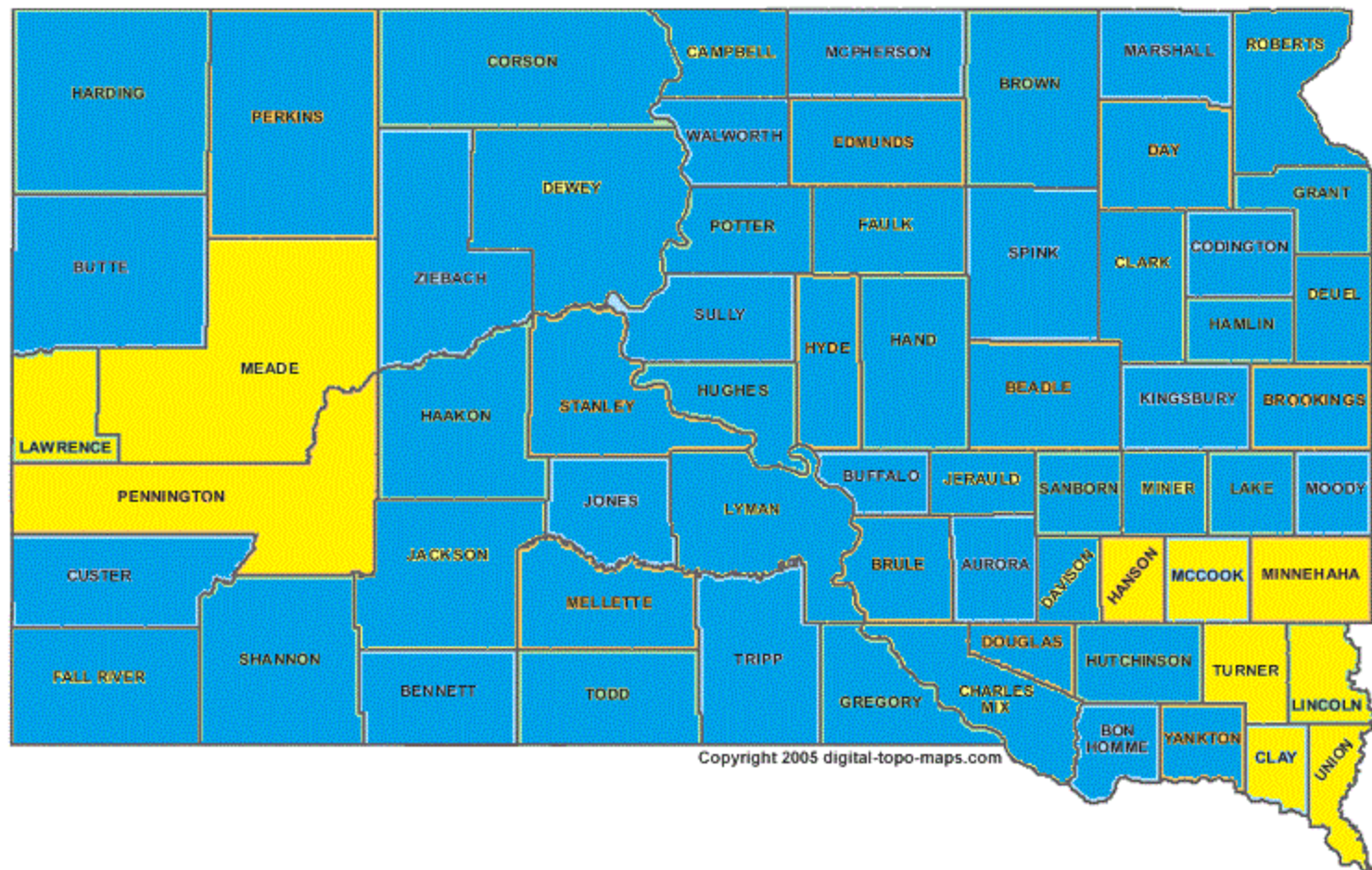
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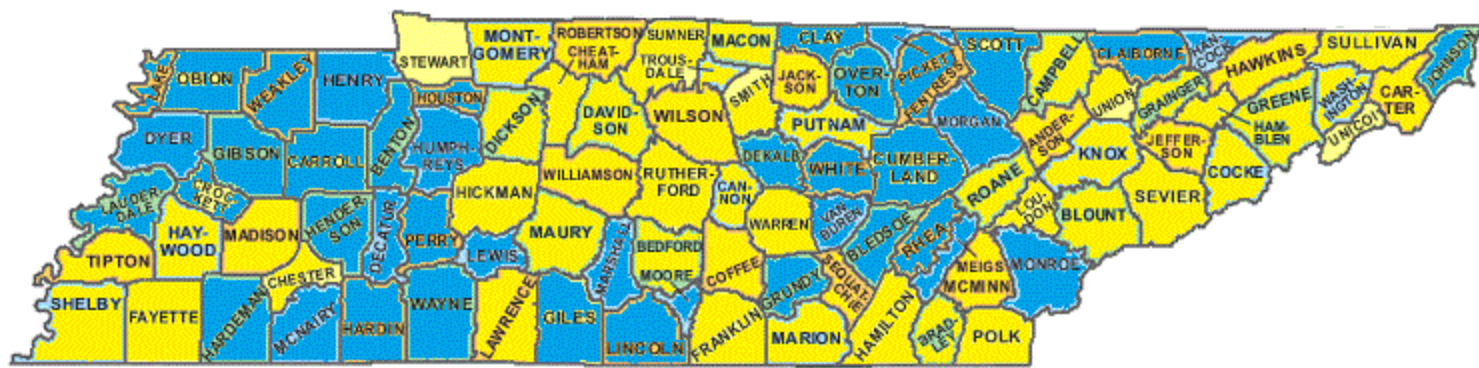
South Carolina



South Dakota

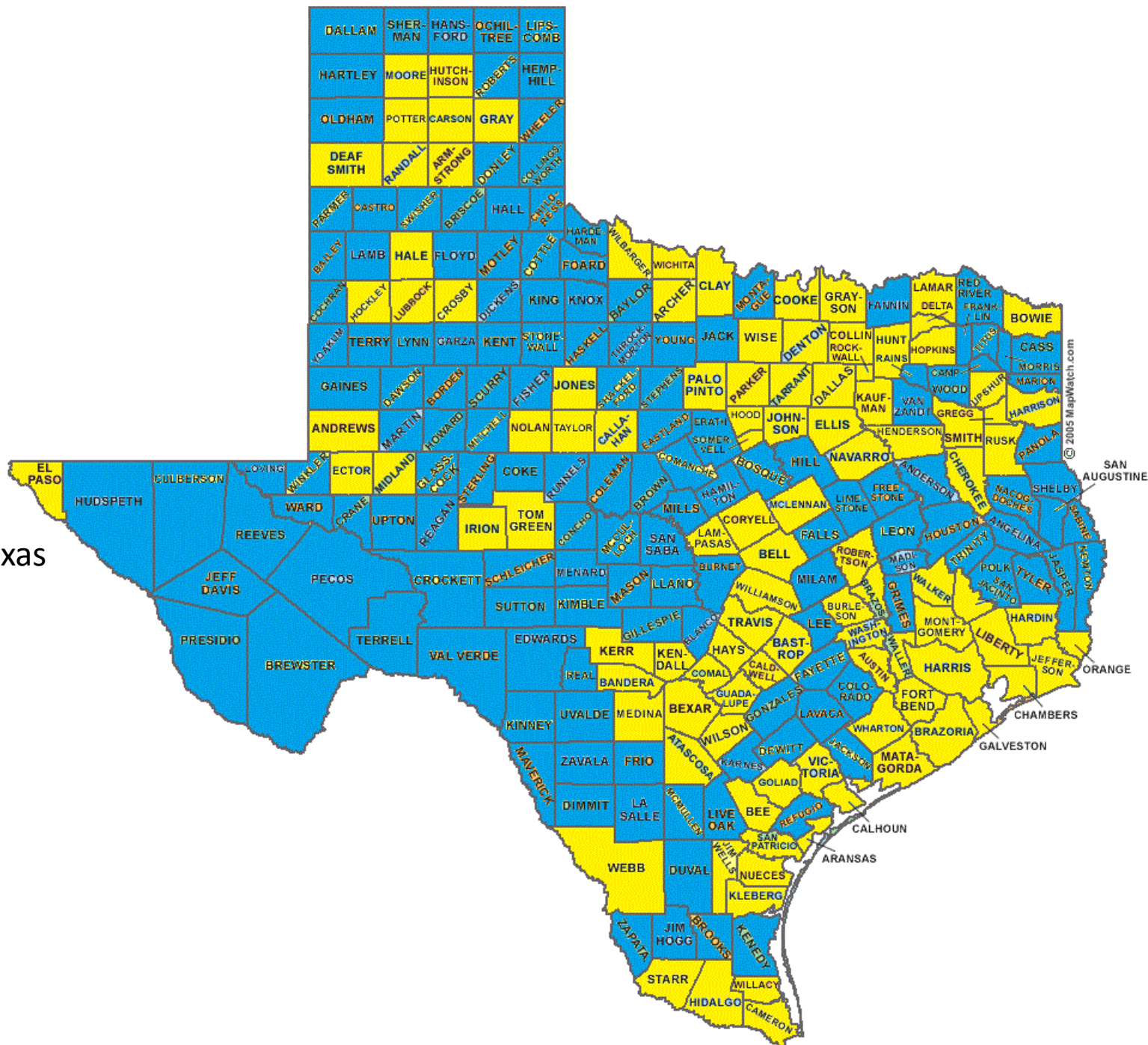


Tennessee

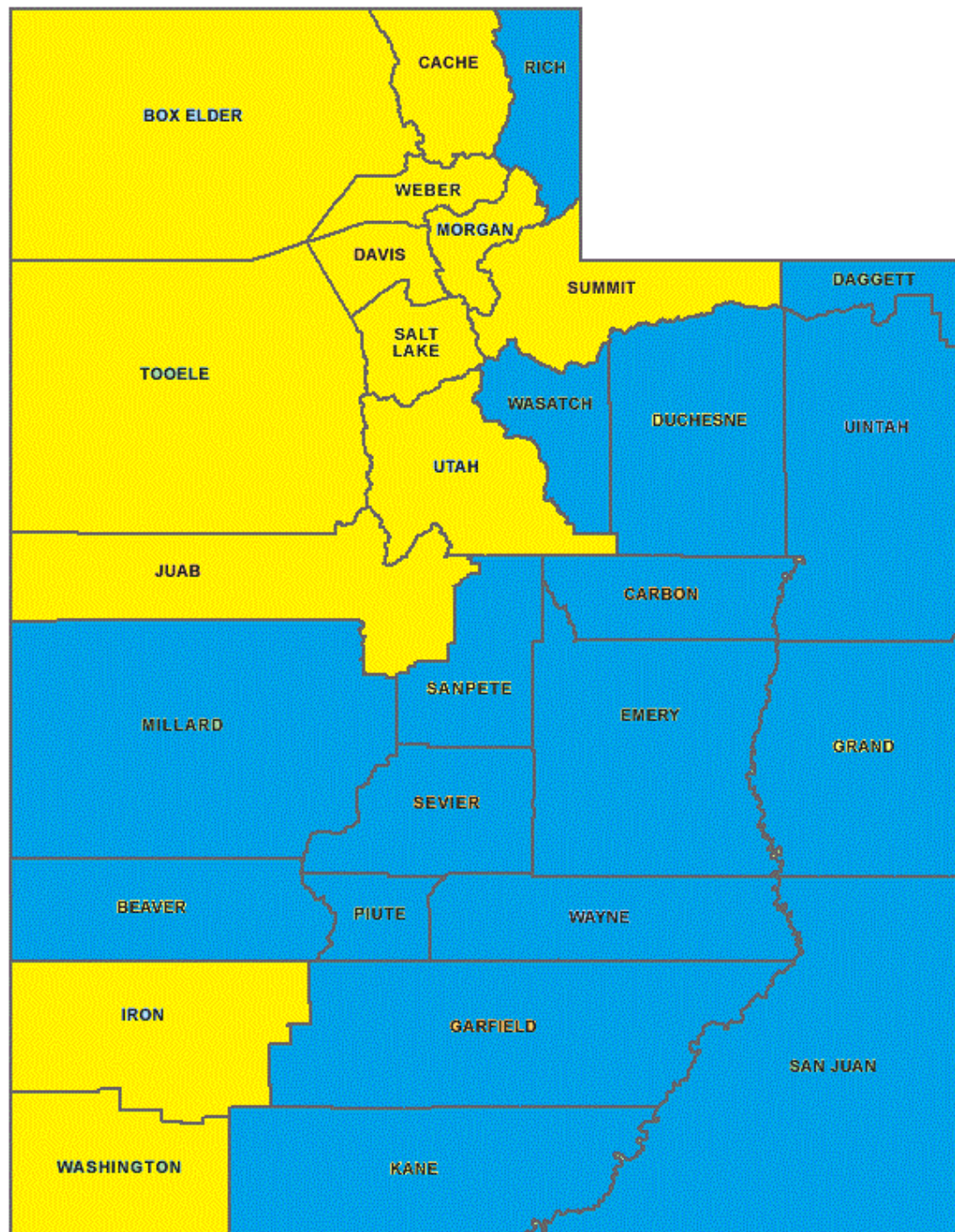


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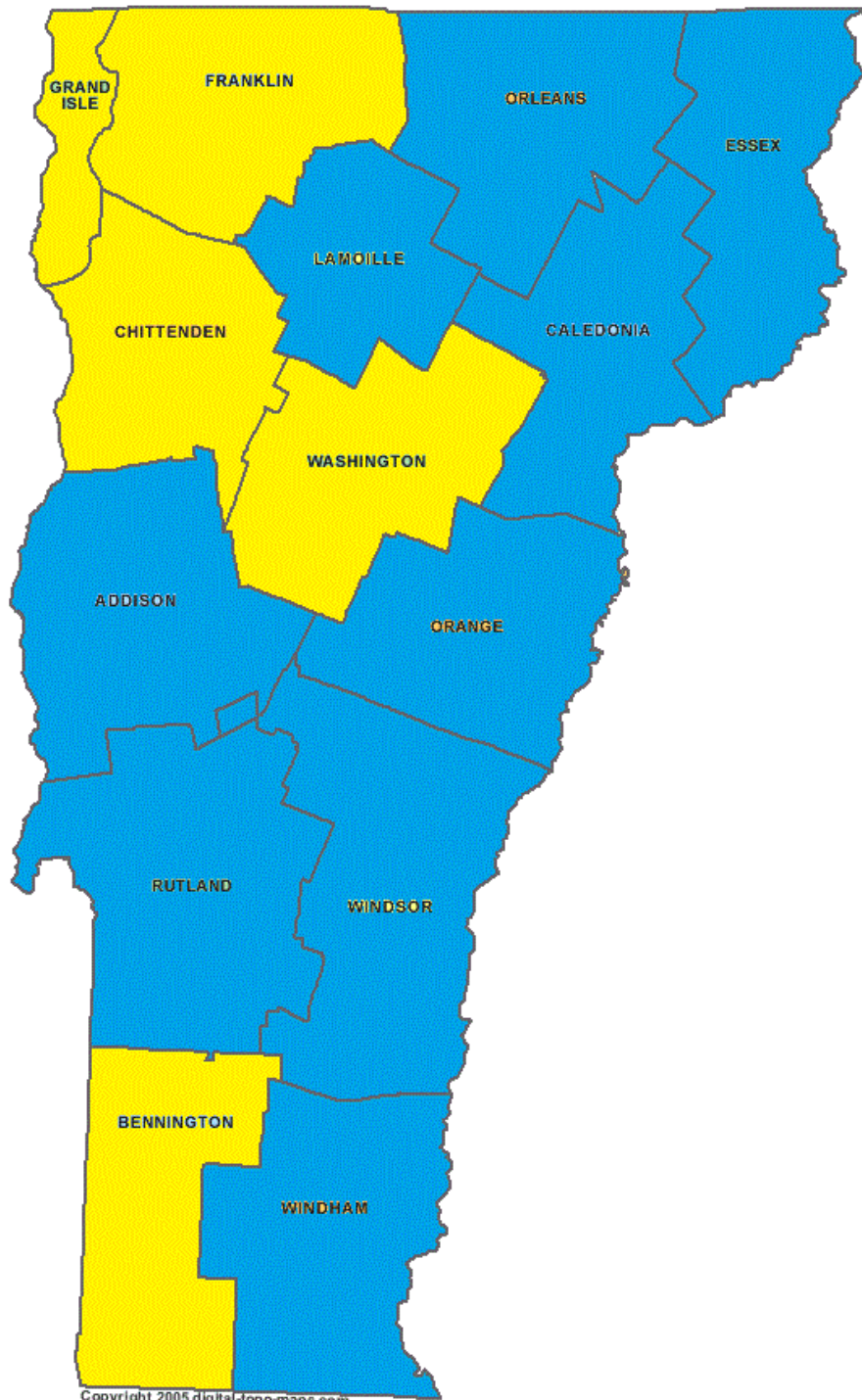
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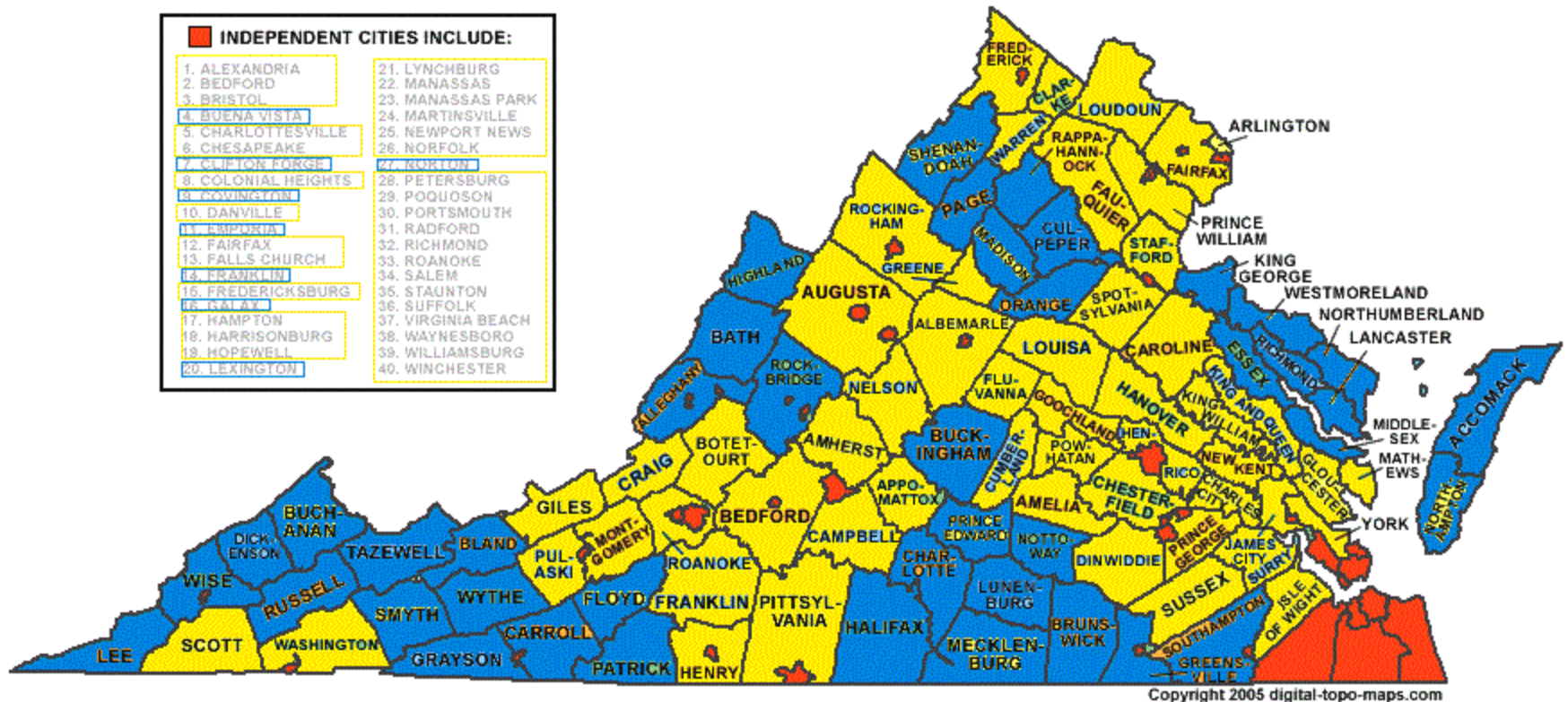
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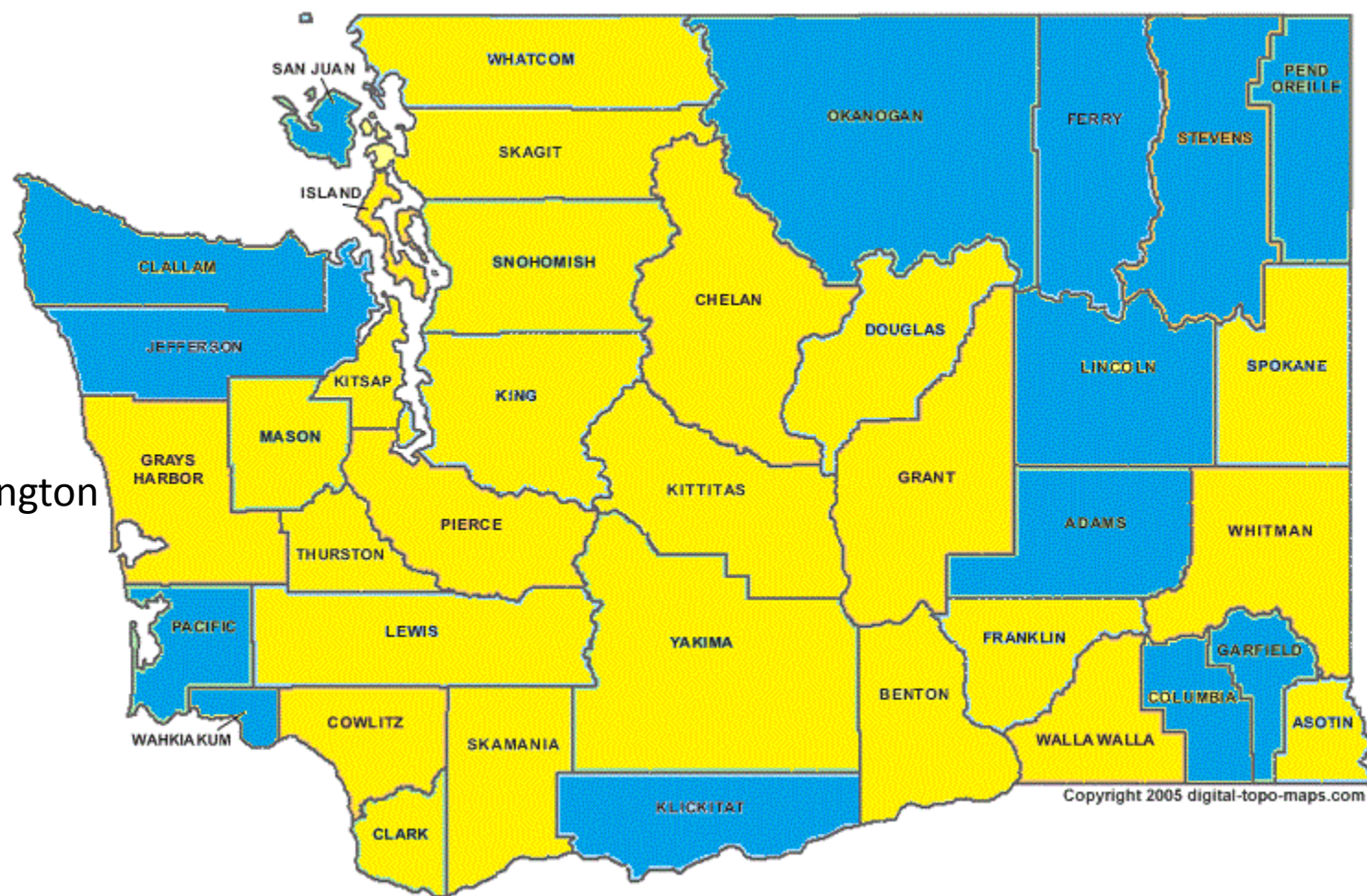
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Virginia

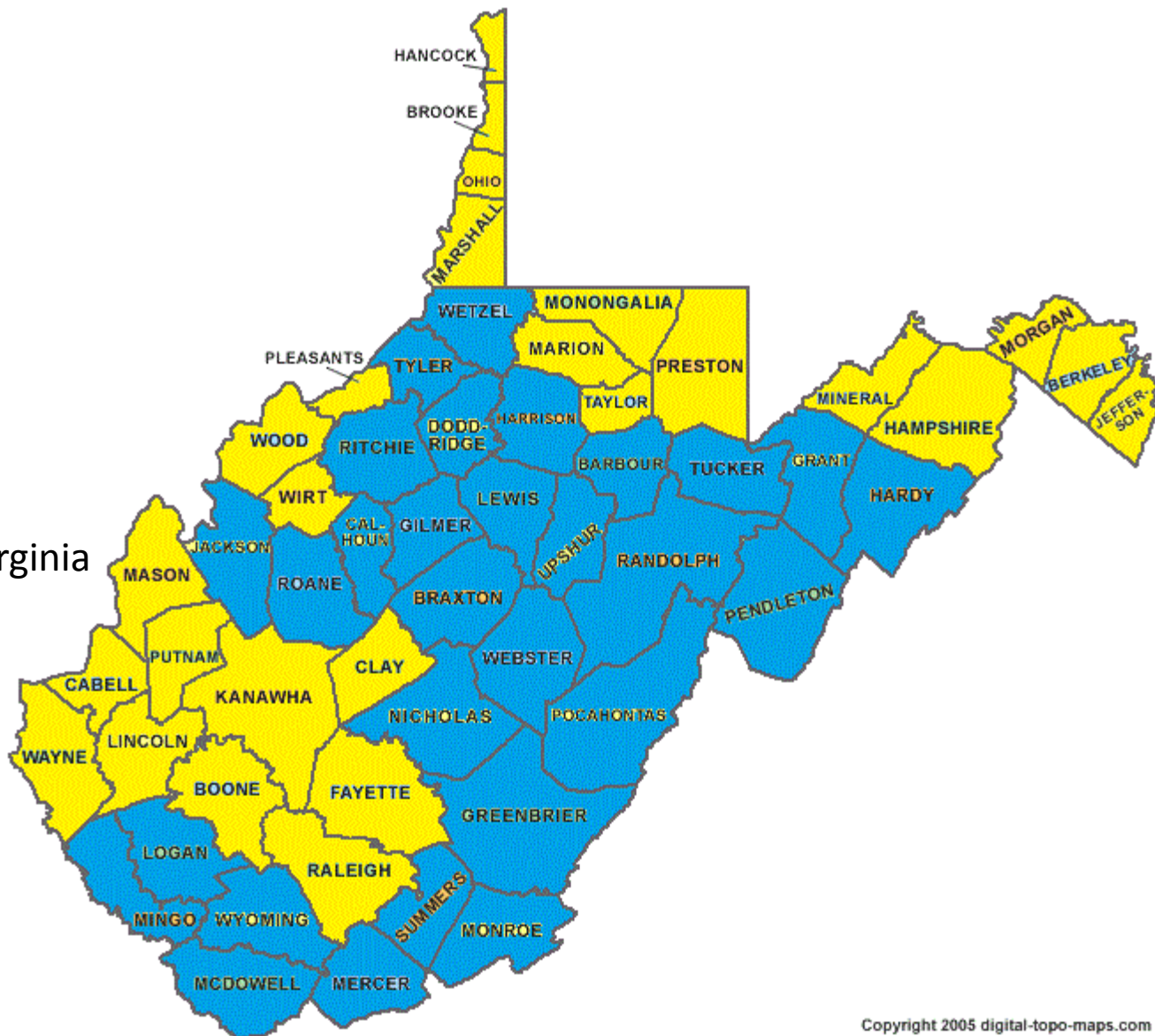


Washington

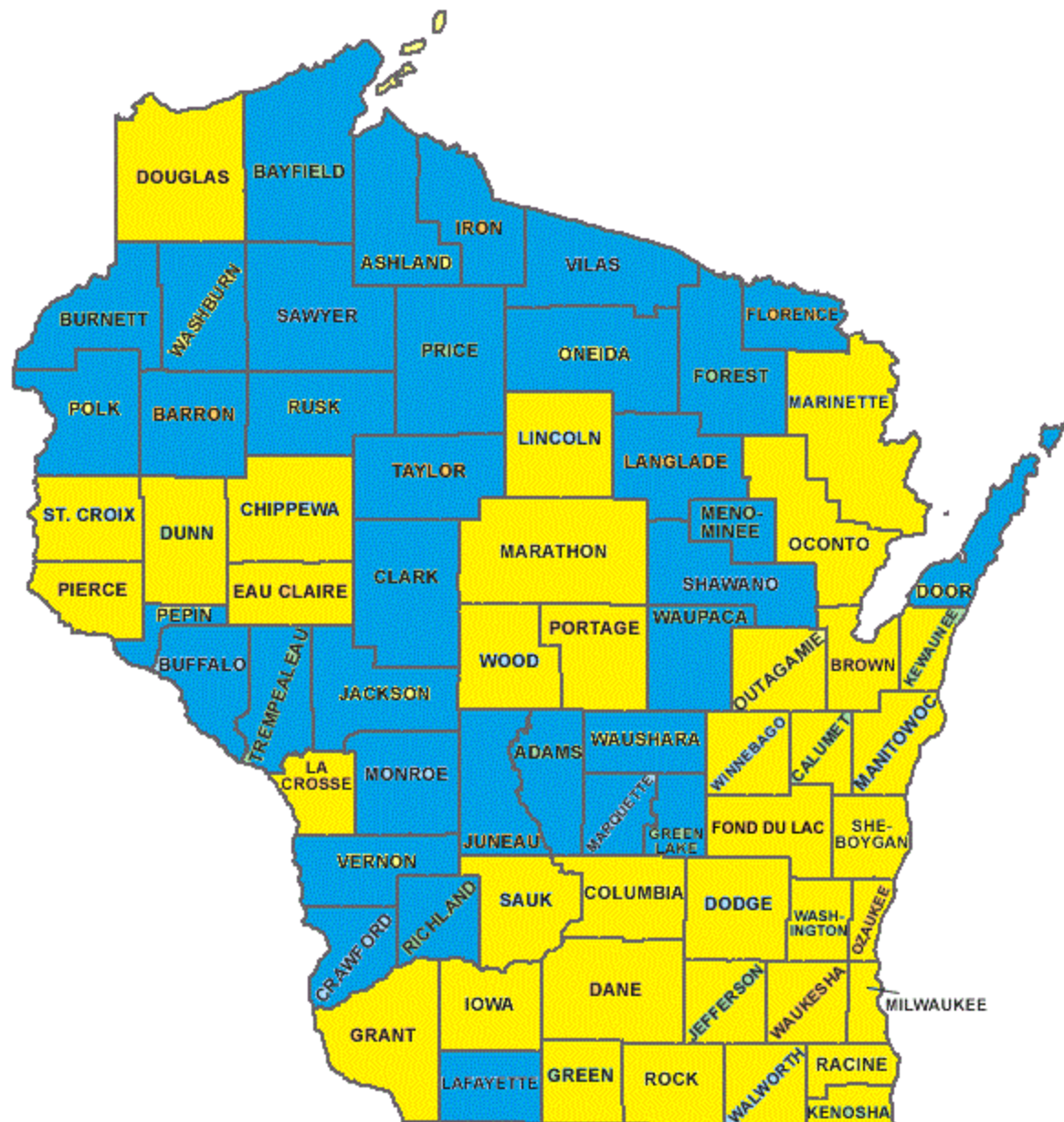


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West Virginia



Wisconsin



Wyoming

