



# IOWA BANKERS ASSOCIATION

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May 7, 2007

Public Information Room  
Office of the Comptroller of the Currency  
250 E Street, SW., Mailstop 1-5  
Washington, DC 20219  
Attn: Docket #2007-005

Jennifer J. Johnson, Secretary  
Board of Governors, Federal Reserve  
20<sup>th</sup> Street & Constitution Ave, NW  
Washington, DC 20551  
Docket No. OP-1278

Robert E. Feldman, Executive Secretary  
Federal Deposit Insurance Corp.  
550 17<sup>th</sup> Street, NW.  
Washington, DC 20429

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G. Street, NW.  
Washington, DC 20552  
No. 2007-09

Ladies and Gentlemen:

Iowa Bankers Association (IBA) is a trade association representing nearly 95% of 400+ banks and savings associations in the State of Iowa. We appreciate this opportunity to comment on the Proposed Statement on Subprime Mortgage Lending.

We applaud the agencies' efforts to curb unscrupulous subprime mortgage lending and reduce the current increasing foreclosure rates. It is important to note however, that not all subprime lending is predatory and it does serve a need in fulfilling the American home ownership dream.

More and more frequently the IBA receives reports from member banks of instances in which their customers have defaulted on mortgage loans obtained from mortgage brokers or non-bank mortgage lenders that are not supervised by the federal banking agencies. The customers have returned to their local community bank for help in saving their homes from foreclosure. Many times these same customers shopped their local banks initially before they obtained their loan from the broker or non-bank mortgage lender but were lured away by a lower initial rate or not willing to follow the local community bank's advice to save for a down payment, reduce their overall debt load before purchasing their home, or repair their current credit condition first.

To address your questions specifically as numbered in you request for comments...

**1. Do these arrangements always present inappropriate risk to institutions and consumers that should be discouraged, or alternatively, when and under what circumstances are they appropriate?**

Subprime loans do serve a segment of the population and when properly underwritten, can benefit the borrower without undue inappropriate risk on the lending institution. When lenders stick to basic real estate lending principles and take into consideration collateral, repayment capacity and

credit as a whole, subprime loans often provide the only vehicle available to some borrowers to own a home or in some instances, save their home from foreclosure.

Many times lenders receive requests from borrowers who have experienced financial difficulty outside their control (such as medical debts, loss of one income due to business closings, etc.) that has resulted in less than desirable credit history. The issues have been resolved but the credit history remains tainted. While these borrowers may not qualify for a lender's prime mortgage product, they do represent an appropriate risk for subprime products if the borrower has the repayment capacity and the collateral value supports the loan request.

It is when lenders, who are more driven by the revenue generated by the loan closing than the borrower's financial goals, focus only on collateral that problems arise. According to one OTS report, nearly 80% of subprime loans now closed are originated by mortgages lenders and brokers not supervised by the federal banking agencies. Therein lies the heart of the issue.

**3. Should the principles of this proposed Statement be applied beyond the subprime ARM market?**

In our opinion, the principles are already applied beyond the subprime market through the regular supervision and oversight provided regulated financial institutions by the FDIC, OCC, OTS and FRB. Current regulations require the disclosure of prepayment penalties, balloon payments and overall loan pricing through Truth-in-Lending Act disclosures. RESPA escrow disclosures provide borrowers with information related to the payment of taxes and insurance and even provides lenders with methods to assist borrowers in avoiding payment shock.

Placing more restrictions and disclosures requirements beyond what is currently in place is not the answer. Consumers are overwhelmed by the amount and content of notices and disclosures currently provided them during the loan process. The issue at hand is not solved by more guidance and regulation, but rather by accountability and oversight. If all participants in the mortgage origination arena were held to the same standards of accountability for accurate disclosures, un deceptive advertising and fair credit practices as regulated financial institutions, the proposed Statement would not be needed.

**4. Would an institution's limiting of prepayment penalties to the initial fixed-rate period assist consumers by providing them time to assess and act on their mortgage needs?**

Many states, including Iowa, have laws prohibiting lenders from assessing prepayment penalties on mortgage loans. Again, the issue is the applicability and enforcement of current laws and regulations upon entities that are domiciled outside the state in which they do business and/or are not subject supervision of the federal banking agencies.

Thank you for consideration of these comments. Feel free to contact me at 515-286-4300 or via e-mail, [rschlatter@iowabankers.com](mailto:rschlatter@iowabankers.com), should you have questions or need further information.

Sincerely,



Ronette Schlatter, CRCM  
Compliance Coordinator