



SINCE 1902

CONFERENCE OF STATE BANK SUPERVISORS

March 12, 2014

Chairman Jeb Hensarling
House Financial Services Committee
2228 Rayburn House Office Building
Washington, DC 20515

Ranking Member Maxine Waters
House Financial Services Committee
2221 Rayburn House Office Building
Washington, DC 20515-0535

Dear Chairman Hensarling and Ranking Member Waters:

On behalf of the Conference of State Bank Supervisors (“CSBS”),¹ I am writing to express CSBS’s continued support for H.R. 2672, the Helping Expand Lending Practices in Rural Communities Act of 2014 (“Act”).² State regulators have a locally-oriented perspective on regulated entities and the communities they serve. The petition process, as improved by Congressman Barr’s amendment, provides the local flexibility necessary to serve these communities.

Regulation Should Support Community Bank Portfolio Lending

State regulators have identified portfolio lending as a key opportunity for policymakers to ensure community banks’ ability to contribute positively to the economic well-being of their local markets. This includes responsibly underwritten balloon loans and flexibility for escrow account services, important factors for credit in markets across the country. Moving forward, policy makers and the CFPB must ensure portfolio lending product options are available in rural areas, including balloon loans.

The Current Rural Designation System is Based on Numbers, Not an Understanding of Local Areas

The CFPB is required to define rural or underserved areas, a prerequisite for Qualified Mortgage status for balloon loan and escrow requirement exemptions under the Dodd-Frank Act.³ To do

¹ CSBS is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. State banking regulators supervise over 5,250 state-chartered depository institutions, most of which are community banks. Additionally, most state banking departments regulate a variety of non-bank financial services providers, including mortgage lenders. For more than a century, CSBS has given state supervisors a forum to provide local insight for national policymakers.

² CSBS previously issued a letter of support for H.R. 2672 on December 4, 2013. See <http://www.csbs.org/legislative/Documents/CSBSLetterofSupportforHR2672Dec42013.pdf>.

³ For qualified mortgage balloon requirements, see Dodd-Frank Section 1412, *codified at* 15 U.S.C. 1639c(b)(2)(E)(iv). For escrow requirements, see Dodd-Frank Section 1461, *codified at* 15 U.S.C. 1639d.

so, the CFPB uses county classifications under the U.S. Department of Agriculture Urban Influence Code.⁴ This formulaic approach to rural classification might be a useful starting place, but is inflexible when applied to counties with atypical population distributions or geographic boundaries.⁵ Accordingly, there needs to be a mechanism for accommodating areas that are truly rural despite Urban Influence Code classifications.

H.R. 2672 Creates a Flexible Process for Local Input

To ensure the rural designation process includes local input, H.R. 2672 creates a process for local stakeholders to petition the CFPB for an area to be considered rural. Importantly, Congressman Barr's Amendment in the Nature of a Substitute creates added flexibility so that the petition process is not limited to a county or other fixed geographic designation. By permitting the petitioner to determine the area for consideration, the amendment allows those closest to an area to engage with the CFPB. Both the petitioner and CFPB are not limited to county-by-county boundaries, thereby ensuring the flexibility necessary to account for geographic and population diversity.

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CSBS believes portfolio lending aligns the interests of consumers and lenders, warranting a regulatory framework that supports originate-to-hold mortgage lending. As the CFPB continues to implement its mortgage rules and Congress evaluates proposed changes, state regulators stand ready to help ensure processes are in place to properly consider the differences between local areas. CSBS applauds Representatives Barr, Hinojosa, Pearce, and Neugebauer for sponsoring H.R. 2672 and urge swift passage of the bill.

Thank you for your consideration,



John W. Ryan
President and CEO

⁴ All "non-core" nonmetro counties are designated as rural. This includes Urban Influence Codes 4, 6, 7, 8, 9, 10, 11, and 12. For an overview of Urban Influence Codes, see <http://www.ers.usda.gov/data-products/urban-influence-codes.aspx#.UpOa2sRDsXE>.

⁵ See, e.g., *Examining How the Dodd-Frank Act Hampers Home Ownership: Hearing Before the Subcomm. On Financial Institutions and Consumer Credit on the H. Comm. On Financial Services*, 113th Cong. (2013) (testimony of Charles Vice, Commissioner, Kentucky Dept. of Financial Institutions) available at <http://financialservices.house.gov/uploadedfiles/hhrg-113-ba15-wstate-cvice-20130618.pdf>; See also, John Ducrest, 'Rural' Mortgage Definition Another One-Size-Fits-All-Rule, *American Banker* (April 15, 2013). Available at <http://www.americanbanker.com/bankthink/rural-mortgage-definition-another-one-size-fits-all-rule-1058282-1.html>.

cc:

Congressman Garland H. Barr

Congressman Ruben Hinojosa

Congressman Steve Pearce

Congressman Randy Neugebauer