From: Stephen Lange Ranzini [mailto:ranzini@university-bank.com]
Sent: Tuesday, July 20, 2010 1:40 AM
To: Comments
Subject: RIN 3064-AD53

I apologize for the lateness of my comment and hope that you will consider it, since the copy of the NPR I received from the ABA and ICBA did not have the comment date but was apparently a draft. I just realized in looking for the RIN number which was not on the draft document I received, that the due date has already passed.

Here is my comment:

The Origination and Retention provisions of the NPR essentially (Question #11) would leave the holder of any security created by a bank that didn't retain risk on a transaction, say 5%, with the risk that it would become an unsecured creditor of the bank in the event that bank failed.(See FN1 below) Because this would defeat the purpose of investment in asset backed securities, no one would be able to sell them to investors. I believe that the FDIC should not impose any requirement of risk retention on securitization transactions because this would be contrary to the best interests of our nation. Such a requirement, such as a 5% risk retention of any securitization, would effectively close the securitization markets to smaller financial institutions. By doing so, it would greatly reduce the competitiveness and the ability of smaller financial institutions to compete with the mega banks. In particular, it would eliminate the ability of smaller financial institutions to compete with the mega banks in providing wholesale mortgage banking services to other smaller financial institutions. This would lead to increased interest rates to consumers, particularly with respect to residential transactions. The destruction of the wholesale mortgage banking units of the competitors of the mega banks would grow the market share of these mega banks that specialize in this area: Citibank, Wells Fargo Bank, Chase Bank and Bank of America. In essence, today, smaller financial institutions keep those mega banks "honest" with respect to prices, terms and service quality. These mega banks today already control over 50% of all new mortgage originations. If there was no competitive pressure from smaller financial institutions that provide these wholesale mortgage banking services, the large mega banks would greatly increase their market share because they would:

1) Be able to buy all mortgages originated from smaller financial institutions, ultimately taking 100% of the overall market and not just the 50% they currently control. This is because they would have pricing power to take the rest of the market. This pricing power would flow to them because:
    a. Consumers will change providers based on only a small change in rate.
    b. The mega banks receive better prices when they sell loans to FHLMC and FNMA or when they securitize GNMA guaranteed FHA loans because they deliver larger volumes to FHLMC, FNMA and GNMA. (Note that this issue is likely to get even more severe because FHLMC and FNMA are likely to be merged out of existence in the next Congress and without the ability to securitize, smaller financial institutions cannot utilize

GNMA since FHA and GNMA do not have wholesale desks that buy whole loans (FNMA and FHLMC do have them).

c. The mega banks have large retail arms that compete with smaller financial institutions for the retail origination of residential mortgages. Since smaller financial institutions will be forced to sell their mortgages to them if they are unable to securitize themselves, during times of high demand (e.g. refi waves) the mega banks will provide disadvantageous pricing and service quality levels to the financial institutions who utilize their wholesale channels to sell their mortgage loans because there is only so much bandwidth to process, underwrite and close deals and it is much more profitable for those mega banks to provide that limited bandwidth to their in-house retail arms than to third party financial institutions. Even smaller differences in price will move customers, however major differences in service quality will arise ("What I've been waiting six weeks to close my loan!") forcing a permanent shift in market share to the retail arms of the mega banks, away from the smaller financial institutions as realtors and other key service providers learn that the best service and best prices come from the mega banks' retail arms.

2) The mega banks would not have any competition in providing wholesale mortgage services from smaller financial institutions. A 5% risk retention requirement would not be able to be met by most smaller financial institutions that provide wholesale mortgage banking services. University Bank for example, originated $750 million of mortgage loans last year sold to the secondary market and virtually all of these were 15 year and 30 year fixed interest rate residential loans. Since our balance sheet is about $140 million, and a 5% risk retention requirement would require us to invest in $37.5 million per year of 15 year and 30 year fixed interest rate mortgage backed securities, we would quickly accumulate levels of interest rate risk that would be most unwise to have on our balance sheet. We would be forced to exit the wholesale mortgage banking business almost immediately despite the fact that our involvement in this business improves the financial health and safety and soundness of University Bank and provides an excellent service to our customers, which include 3.1% of all credit unions nationwide.

With respect to the cash collateral pool (Question #12) this requirement would cause all securitizations not to qualify for GAAP sale treatment. It would cause the same problem outlined above because smaller financial institutions such as University Bank would not be able to securitize residential mortgage loans without significantly degrading our bank's capital.

(FN1) The repudiation clause does not give absolute legal assurance that the collateral will not be tied up in conservatorship or receivership indefinitely because of the language that the collateral will be released timely "provided no involvement of the receiver or conservator is required." Any action which is at the discretion of the FDIC or which causes ambiguity would be unpalatable to the investors in the market.

It is contrary to the national interest to see the mega banks grow their already large market share in a material way. The concentration of money (and therefore power) in these entities is contrary to the long term maintenance of our democracy and these larger entities will ultimately cause even larger market destabilizations when they inevitably fail.

The rule is very unwise and Congress recently rejected a similar provision in the Dodd Frank Financial Reform Bill for these same reasons as noted above.

Best wishes,

Stephen Lange Ranzini
President & CEO
University Bank*
Ann Arbor, MI USA