From: Tim Aiken [mailto:taiken@hometownbanc.com]
Sent: Tuesday, August 14, 2012 3:40 PM
To: Comments
Subject: FDIC / RIN 3064-AD96

Regarding the "Standardized Approach" NPR:
I have several concerns about the proposed risk-weighting for 1-4 family residential mortgages. First, regarding the requirements to be classified as CATEGORY 1 loans:

1. "*Taking into account…all of a borrower's obligations…..including taxes and insurance*": Union Bank has never used taxes & insurance in calculating a borrower's ability to repay a loan. We never even escrowed for taxes & insurance until recent regulations forced us to do so. We have thrived for many years without this requirement. We hold nearly all loans we originate in portfolio. We expect that if a borrower has the ability to repay a mortgage loan, he / she will also have the ability to maintain the home, and pay the associated taxes & insurance for the home. Borrowers in our market area know and understand that payment of taxes and insurance are a requirement of home ownership. We have always prudently underwritten our residential mortgage loans, as evidenced by our low loss history. Union Bank's ten-year average (2002 through 2011) of net losses for 1-4 family mortgage loans is *.04% of outstanding loans.* For the last three (3) years, a period of high foreclosures and losses nationally, our net loss average is .09% of outstanding 1-4 family mortgage loans, which is well below our peer group average of .31%. Since we have never used taxes & insurance in underwriting, all of our portfolio loans would be deemed "higher risk" under the NPR and placed into Category 2. Given our historical losses, this would be an inherently unfair.

2. *"Determination of borrower's ability to repay is based on documented, verified income*": Until somewhat recently (February 2009), Union Bank did not require residential mortgage borrowers to provide documentation of income on a regular, standard basis. We only required it if the borrower was not familiar to us; therefore, we have a large number of existing loans on the books for which we do not have *documented income,* as defined in the NPR. While at first glance this practice may seem "risky" to someone not familiar with our market, consider that in the communities we serve, *it is very rare that we do not know our borrower*, *and know them well.* Our loan officers most often know where an applicant is employed, what the applicant's position is with the employer, and the typical wage for that applicant's position. In the past, if we knew our borrower, we would simply take the borrower's income and employment information on the application, and the borrower then would sign the application and affirm the information it contains is "true and accurate". Again, I point to our loss history on these loans (indicated in Item 1 above), which proves our conservative underwriting. Since we did not, until recently, obtain documentation of income on a standardized basis, the vast majority of our portfolio loans would also fail this requirement and be placed into Category 2, as "higher risk" loans. Again, given our loss history, this is an injustice.

3. Regarding the denominator of the LTV for non-purchase money transactions: The NPR states that the "…*estimate of value would be based on an appraisal or evaluation … in conformance with the agencies' appraisal regulations……etc.*" For over 20 years, Union Bank relied upon "In-house Evaluations" for residential real property transactions under $250,000 within our market area, as was permitted by regulation. These evaluations served us well (again, I reference our historical loss ratio in Item 1 above); we always felt that we were more conservative than the appraisers in our area. In the wake of the mortgage crisis, the agencies published revised guidelines which essentially elevated an "In –house Evaluation" to the level of a certified appraisal (see FIL-82-2010, dated December 2010). We have since changed our underwriting process accordingly, and we no longer employ "In-house Evaluations". The NPR does not address how loans would be treated that have LTV's based upon "In-House Evaluations" performed prior to the publication of the revised guidelines; however, I believe we can assume that they would be viewed or interpreted as "not complying" with the proposed rule**.** If so, a large portion of our portfolio loans would not meet the requirements of the NPR, which references the newer appraisal guidelines; thus, again, most of our existing portfolio loans would fall into Category 2 as "higher risk", according to this section or the NPR. Again, this result is inherently unfair and is based upon flawed and arbitrary assumptions.

EFFECTS:

Should these deficiencies in the NPR not be corrected, Union Bank's regulatory capital ratios will be severely and negatively impacted, and will place the bank into a category below the current "Well-Capitalized" status it currently enjoys. This, in turn, would likely have multiple negative effects, including but not limited to: a) a lower CAMELS rating; b) higher FDIC insurance premiums; c) difficulty raising additional capital; and d) a severe limiting effect on the bank's ability to service its customers and communities.

SUGGESTIONS:

I expect that many community banks, with historically low loss ratios, would have similar issues regarding performing 1-4 family mortgage loans that are already on the books; i.e., due to past procedures, many well-underwritten, performing loans would automatically be deemed "higher risk" due to these flawed and arbitrary proposed risk-weighting guidelines. I recommend that community banks under $10 billion be exempted from these proposed requirements as such: All performing first lien 1-4 family mortgages held in portfolio, with an original duration of 30 years or less, are considered CATEGORY 1 loans. At the very least, all existing portfolio loans that are performing should be grandfathered and exempted from being classified as CATEGORY 2.

OTHER OBSERVATIONS AND CONCERNS regarding the Standardized Approach NPR:

- I fail to see why a 1-4 family mortgage loan should have a risk weight of 150% or 200%. You can only lose 100% of principal, and foreclosure costs would typically be no more than an additional 10%.

- The requirement (to qualify as a CATEGORY 1 loan) that the terms of the mortgage "*do not….allow the borrower to defer payment of principal*", needs to be further defined. Strictly interpreted, it would seem that any type of payment deferral would throw the loan into CATEGORY 2. Union Bank occasionally uses payment deferrals (and collects interest only) when a borrower experiences a brief, documented, short-term difficulty, such as a temporary loss of work or a medical issue. In our experience, and due to our strong underwriting, this practice presents no additional risk to the bank and the loans return to their regular contractual payments (Again, I point to our loss history). The regulation needs to address instances where a prudent use of a payment deferment is utilized, and to not penalize the bank for doing so. Given that the prudential regulators have encouraged banks to "work with" borrowers to avoid foreclosures on their homes, this only makes sense.

- The proposal that any loans with balloon terms will trigger an automatic CATEGORY 2 rating (i.e., presumed "higher risk") will be of particular concern for many community banks that have successfully employed the use of well-underwritten balloon mortgages in their markets for many years, and will likely have the effect of limiting credit availability in these markets.

I appreciate the opportunity to comment.

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