

507 S. Grand Ave.

Lansing, MI 48933

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Federal Agencies Seek to Expand Mortgage Guidance to Subprime Borrowers

Financial regulatory agencies are requesting comment on a proposed Statement on Subprime Mortgage Lending. The proposal stipulates that subprime borrowers may not fully understand the risks and consequences of the loans and that the loans involve repayment terms that exceed the borrower's ability to repay without refinancing or selling the property.

Specifically the statement requires an analysis of a borrower's ability to repay the debt by its final maturity at the fully indexed rate. It emphasizes that borrowers should receive clear and balanced information on the benefits and risks of the products.

The proposal addresses states that the products may pose an elevated

credit risk to financial institutions as well.

If adopted, this statement would complement the 2006 Interagency Guidance on Nontraditional Mortgage Product Risks, which did not specifically address the risks of these ARM products.

The agencies request comment on all aspects of the proposed statement and are particularly interested in public comment about whether:

- 1.) These arrangements always present inappropriate risks to institutions and consumers, or the extent to which they can be appropriate under some circumstances.
- 2.) The proposed statement would unduly restrict existing subprime

borrowers' ability to refinance their loans.

3.) Other forms of credit are available that would not present the risk of payment shock.

4.) The principles of the proposed statement should be applied beyond the subprime ARM market.

5.) An institution's limiting of prepayment penalties to the initial fixed-rate period would assist consumers by providing them sufficient time to assess and act on their mortgage needs.

Comments are due 60 days after publication in the Federal Register, which is expected shortly.

Governor's Task Force on Elder Abuse Includes Participation by Financial Institutions

The report from the governor's Task Force on Elder Abuse includes several areas of interest to bankers. The section on Preventing Financial Exploitation suggests that OFIS work with financial institutions on a voluntary basis to put safeguards in place and encourage the financial community to better protect their elderly customers against financial abuse.

The report listed mandatory reporting by financial professionals and institutions which would require banks to become mandatory reporters of suspicious financial activity directed against their elderly customers. The report suggests inclusion of waiver of liability for good faith reports as well as training provisions. Also recommended is the creation of expedited, ex-parte financial protection orders. This would authorize a local law enforcement officer or the head of the county APS to complete an emergency financial freeze order based on a good faith belief that a vulnerable adult's property is at immediate risk of loss. The MBA is following closely any action on the report.

Advocacy Report

File Freeze Legislation Being Considered

Four bills addressing identity theft issues have been introduced in the Michigan legislature. Each of the bills allows a consumer to authorize a credit agency to place a security freeze on their account to prevent unauthorized access to information. HB 4103, passed the House unanimously and has been referred to the Senate Banking committee; HB 4178, remains in House committee and it is unlikely this bill will move. SB 75 and SB 340 currently await action on Senate floor and movement is likely this week.

SBs 75 and 340 are now tiebarred together meaning they will both be passed or defeated. The main differences between the Senate and House bills are the provisions on who may place a freeze on their credit report and the circumstances allowing a “thaw” or “temporary unfreeze” of the credit report freeze. HB 4103 only allows

persons with police reports of identity theft to place a freeze until 2009 and the Senate bills allow anyone to place a freeze. The Senate bills allow “thaws” immediately but HB 4103 is more amenable to the credit reporting industry, in that the thaws won’t occur with PIN and password until 2009.

The main concerns for the industry were specification on which entities were not required to place a freeze, such as the companies that banks contract with, Chex Systems for example, and the use of federal definitions from the Fair Credit Reporting Act for “credit reporting agency,” “proper identification” and “consumer report.” The MBA worked closely with legislators in both chambers to accomplish these goals.

Regulators to Develop a Nationwide Database for Mortgage Professionals

The Office of Financial and Insurance Services (OFIS) is participating in the development of a nationwide licensing system for state residential mortgage regulators.

The Residential Mortgage Licensing System will be used by state residential mortgage regulators to accept and process national, uniform license applications and renewal forms.

According to OFIS Commissioner Linda A. Watters, the system will improve the efficiency and effectiveness of state supervision of the U.S. mortgage market; fight mortgage fraud and predatory lending that cost consumers and the mortgage industry hundreds of millions of dollars in losses each year; increase accountability among mortgage industry professionals; and unify and streamline state license processes for mortgage lenders and mortgage brokers.

The Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators are spearheading the system, which will be available over the Internet through a secure Web site in January 2008.

The following 29 state agencies, including OFIS, have indicated they will participate in the system: Alabama, Arizona, Arkansas, Connecticut, District of Columbia, Georgia, Idaho, Indiana Department of Financial Institutions, Indiana Secretary of State, Iowa, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Vermont, Washington and Wyoming.

Two-Penny Plan Includes Investment Counseling

Gov. Granholm has proposed a two percent tax on certain services as part of her comprehensive budget and economic plan for the 2007-08 fiscal years. Under this proposal certain services would be taxed and others would not. Under the finance, insurance and real estate category; investment counseling, insurance services (excluding premiums) real estate management fees and real estate title and abstract services were among those specified. The MBA is closely following this legislation and keeping the administration apprised of its impact on the financial services industry.

FCS Rule Amendment Expands Farm Credit System Eligibility

The Farm Credit Administration (FCS) is pushing a proposed rule expanding eligibility for Farm Credit System financing. The FCS's Horizon Project will in effect give FCS lenders unlimited opportunities to finance investor-owned businesses which may or may not be operating in the best interest of the farmers and ranchers who own the FCS. The proposal will also do serious damage to private sector lenders who in the past have worked with FCS institutions to finance the needs of rural Michigan.

2007 CURIA CapWiz – Action Needed

The ABA is urging House members not to co-sponsor the Credit Union Regulatory Improvements Act (H.R. 1537). The bill would grant credit unions increased commercial lending authority and lower capital requirements. Reps. Paul Kanjorski, D-Pa., and Ed Royce, R-Calif., recently re-introduced the latest version of the bill. The legislation would loosen credit unions' capital standards, increase their cap on business lending from 12.25 percent of total assets to 20 percent and expand their authority to add underserved communities to fields of membership.

It is extremely important that all bankers communicate their opposition to the 2007 CURIA bill. The MBA has drafted a form letter (which can easily be modified to include your personal comments) to communicate our industry's strong opposition to any further increase in lending authority to credit unions. The following representatives co-sponsored CURIA in the previous legislative session: Reps. Bart Stupak, D-1st; Peter Hoekstra, R-2nd; Dave Camp, R-4th; Dale Kildee, D-5th; Fred Upton, R-6th; Thaddeus McCotter, R-11th; Sander Levin, D-12th; Carolyn Kilpatrick, D-13th and John Conyers, D-14th.

Click [here](#) to send the CURIA CapWiz letter to your representatives in Washington, D.C.

Michigan Retirement Program Act

House New Economy and Quality of Life Committee took testimony on HB 4135 Rep. Steve Bieda, D-Warren, which would create the MI Retirement Program Act, a retirement program for Michigan businesses and their employees. This retirement program, initially administered by the Department of Management and Budget, would be transferred to a private or non-profit entity within five years. Chris Pigorsh of Founders Bank & Trust testified on behalf of the MBA in opposition to this bill stating there are already retirement plans in place for small businesses that are being offered by the private sector.

“It is not a supply issue, but a demand issue. There are retirement plans available to the employers and employees but even when the employers have offered plans, participants especially those in small businesses are not participating in large numbers,” said Pigorsh. “If the state would like to become involved in the retirement process, we would welcome their help in educating the people in the importance of saving for the future while avoiding consumer debt.”

Save the Date – MBA Washington, D.C. Delegation, September 25-27

If you are interested in participating in the 2007 MBA Washington, D.C. Delegation, please contact Jordan Kingdon at jkington@mibankers.com or 517-342-9073.

Grassroots News

MBA Grassroots Meeting with Senator Michelle McManus in Benzonia



Lindy Evans and Norm Campbell from Central State Bank in Benzonia hosted a grassroots meeting with Sen. Michelle McManus on Friday, March 9.

Larry Stine, Sheila Fitzgerald and Karen Irwin of Central State Bank; Doug Cook of West Michigan National Bank; Blake Brooks and Jim Martin of State Savings Bank; Art Jeannot, Norm Plumstead, Donna Hillard, Nancy Coalter and Mike Worden of Honor State Bank; Charles Keller and Jeremy Holmes of West Shore Bank participated in the meeting.

MBA Grassroots Meeting with Senator Jason Allen in Mackinaw City



Jim North, Bank of St. Ignace; Sue Eno, Citizens National Bank of Cheboygan; Kyle Kurtz, First Community Bank, Harbor Springs and Ronald Meister of Central Savings Bank, Sault Ste. Marie met with Sen. Jason Allen on Friday, March 9 in Mackinaw City.

MBA Grassroots Meeting with Rep. Rick Shaffer in Three Rivers



Jeff Gatton hosted a grassroots meeting with Rep. Rick Shaffer at First Savings Bank FSB in Three Rivers on Feb. 23, 2007.

Attending were: Bill Cody, Scott Connelly, Christy Linn and Larry Clark of First Savings Bank FSB in Three Rivers; Rick Dyer, Dave Allen and Don Farmer of First National Bank; Eric Eishen and John Johnson of Sturgis Bank and Trust; and Jeff Zimont of Fifth Third Bank for attending.

Bankers Wanted at Upcoming MBA Grassroots Meetings

The MBA is looking for bankers to participate in the upcoming grassroots meetings:

March 30, 9:30 a.m. – Senate Majority Leader Michael Bishop, **Huntington Bank - East Michigan**, Troy

April 6, 1:30 p.m. – Sen. Mike Prusi - **Range Bank**, Negaunee

April 10, 1:00 p.m. – Congressman Dave Camp, Traverse City (**Host Bank Needed**)

April 13, 9:00 a.m. – Congressman Dale Kildee, breakfast meeting at **Warwick Hills CC**, Grand Blanc

April 30, 10:00a.m. – Rep. Kevin Green and others, **United Bank of Michigan**, Grand Rapids

Contact Jordan Kingdon at 517-342-9073 for more information.