

'Rural' Mortgage Definition Another One-Size-Fits-All Rule



American Banker
April 15, 2013
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One-size regulation does not fit all. The latest example of this notion can be felt by banks across the country originating balloon loans outside of newly designated "rural" counties.

Community banks have utilized balloon loans for decades. These loans provide mortgage credit in communities where it would otherwise be impossible to obtain due to interest rate risk for the bank or a lack of secondary market qualifications on part of the borrower or property. These loans are held in portfolio, keeping all the risk of default with the community bank, and refinanced on an as-needed basis for the mutual benefit of the borrower and lender.

While balloon loans in the originate-to-distribute lending model proved to be heavily flawed, the balloon mortgages held on balance sheets by community banks are a responsible and accommodative product for borrowers across the country.

The Dodd-Frank Act confers qualified mortgage benefits on balloon loans if they are made in rural or underserved areas. This unnecessarily restricts the availability of the responsibly underwritten products utilized by community banks in all areas. The Consumer Financial Protection Bureau was locked into this requirement when promulgating the definition of a qualified mortgage. As a result, arbitrary lines will harm consumers across the country, which I have seen firsthand in Louisiana.

Grant Parish, Louisiana is rural by all senses of the word. The largest town in Grant is the parish seat, Colfax, with a population of 1,558 as of the 2010 census. The fastest growing town in Grant Parish is Pollock, increasing 20% in population from 376 to 469 people over the last census period. Nearly half of Grant Parish is Kisatchie National Forest, and to the best of my

knowledge, there is not a single stoplight or caution light in the parish. Stop signs are enough, even when the annual Louisiana Pecan Festival comes to Colfax every November.

Despite the abundance of rural characteristics, the metric chosen by the CFPB to delineate rural counties would exclude Grant Parish from this important designation because it borders a parish with a small city. Unfortunately, this improper designation is not unique to Grant Parish. Many sparsely-populated parishes in Louisiana are not designated as rural because of the technicalities in the designation system, and it is abundantly clear from my colleagues in other states that this problem extends to a significant number of counties across the country.

The CFPB is not to blame here – I challenge any Washington-based agency to follow Congress's orders to limit a product to rural areas and define those boundaries on a location-by-location basis. Indeed, the CFPB helped community banks harmed by these restrictions by proposing the "small creditor qualified mortgage," allowing smaller institutions to originate qualified mortgages without a debt-to-income cap and without the proscribed underwriting requirements reserved for the standard qualified mortgage.

The rulemaking for this requirement is a symptom of a larger problem— inherently local knowledge is needed for most of the regulations tasked to regulators in Washington. National standards cannot be applied evenly across different markets and different business models, regardless of how much research goes into drawing lines. This is as true for balloon loans as it is for the application of Basel III capital standards to community banks.

Going forward, I encourage federal policymakers to utilize the resources they have in the states. I would be glad to work with federal regulators and legislators to tell them what areas of Louisiana are rural or what the appropriate higher levels of capital should be at community banks in our markets. My colleagues in the states and I stand ready to delineate new processes to ensure regulations are not only appropriate for community banks, but also enforced to ensure the safety and soundness of our financial institutions over the long term.

The U.S. is not a single market; it is thousands of small markets serviced by institutions of all sizes. It is time to recognize this reality, and implement a state-federal partnership that will maximize all Louisiana and the 49 other states have to offer.

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