

August 16, 2011

The Honorable Tim Johnson
Chairman
Senate Banking Committee
U.S. Senate
Washington, D.C. 20510

The Honorable Richard Shelby
Ranking Member
Senate Banking Committee
U.S. Senate
Washington, D.C. 20510

Dear Chairman Johnson and Ranking Member Shelby:

The undersigned organizations wish to bring to your attention a concern with the Flood Insurance Reform and Modernization discussion draft expected to be considered by the Senate Banking Committee in September.

While we strongly support the legislation's extension of the National Flood Insurance Program (NFIP) authorization for five years, we are particularly concerned with the impact on small financial institutions of the mandatory escrow requirements in Section 111. Current law requires lenders who escrow for taxes and insurance to also escrow for NFIP premiums. However, Section 111 would expand this requirement to all lenders, regardless of whether they escrow for other items.

There is a significant cost involved with establishing escrow accounts, particularly for community banks, credit unions, and community-based lenders that have small lending volumes. These lenders must outsource their escrow services, and they are not eligible for volume discounts.

Many of our members who are located in rural and underserved areas are concerned that the expense of instituting escrow will drive them out of the mortgage business. A reduction in the number of loan originators would lead to more consolidation of the mortgage market, thereby reducing credit options in an already troubled market and would reduce borrower choice.

For these reasons, we strongly urge you to remove the mandatory escrow requirement from the discussion draft.

We look forward to working with you on this issue.

Sincerely,

American Bankers Association
Credit Union National Association
Independent Community Bankers of America
Mortgage Bankers Association
National Association of Federal Credit Unions

cc: Members of the Senate Banking Committee