
Joint Release

**Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision**

For immediate release

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Agencies Seek Comment on Subprime Mortgage Lending Statement

The federal financial regulatory agencies today issued for comment a proposed Statement on Subprime Mortgage Lending to address certain risks and emerging issues relating to subprime¹ mortgage lending practices, specifically, particular adjustable-rate mortgage (ARM) lending products.

The proposal addresses concerns that subprime borrowers may not fully understand the risks and consequences of obtaining these products, and that the products may pose an elevated credit risk to financial institutions. In particular, the proposed guidance focuses on loans that involve repayment terms that exceed the borrower's ability to service the debt without refinancing or selling the property.

The statement specifies that an institution's analysis of a borrower's repayment capacity should include an evaluation of the borrower's ability to repay the debt by its final maturity at the fully indexed rate, assuming a fully amortizing repayment schedule. The statement also underscores that communications with consumers should provide clear and balanced information about the relative benefits and risks of the products. 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; and 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 sixty days after publication in the Federal Register, which is expected shortly. The guidance is attached.

Attachment:

<http://www.fdic.gov/news/news/press/2007/pr07018a.html>

¹The term "subprime" is defined in the *Expanded Guidance for Subprime Lending Programs*, issued by the agencies on January 31, 2001.

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