

Press Releases

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OTS 07-046 - Federal Financial Regulatory Agencies Issue Final Statement on Subprime Mortgage Lending

Office of Thrift Supervision

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For further information

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Joint Release

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

Federal Financial Regulatory Agencies Issue Final Statement on Subprime Mortgage Lending

Washington, D.C. -- The federal financial regulatory agencies today issued a final *Statement on Subprime Mortgage Lending* to address issues relating to certain adjustable-rate mortgage (ARM) products that can cause payment shock.

The statement describes the prudent safety and soundness and consumer protection standards that institutions should follow to ensure borrowers obtain loans they can afford to repay. These standards include a fully indexed, fully amortized qualification for borrowers and cautions on risk-layering features, including an expectation that stated income and reduced documentation should be accepted only if there are documented mitigating factors that clearly minimize the need for verification of a borrower's repayment capacity. Consumer protection standards include clear and balanced product disclosures to customers and limits on prepayment penalties that allow for a reasonable period of time, typically at least 60 days, for customers to refinance prior to the expiration of the initial fixed interest rate period without penalty.

The statement reinforces the April 17, 2007 interagency *Statement on Working with Borrowers*, in which the agencies encouraged institutions to work constructively with residential borrowers who are financially unable or reasonably expected to be unable to meet their contractual payment obligations on their home loans. Workout arrangements that are consistent with safe and sound lending practices are generally in the long-term best interest of both the financial institution and the borrower.

The agencies published the proposed *Statement on Subprime Mortgage Lending* for comment on March 8, 2007. Comments were received from financial institutions, trade associations, consumer and community organizations, members of Congress, state and local officials, and members of the public. The agencies made a number of changes to the proposal to respond to commenters' concerns and to provide additional clarity.

The *Statement on Subprime Mortgage Lending* is attached.

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Attachment - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2007-46a.pdf>

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The Office of Thrift Supervision, an office of the Department of the Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of, and compliance with consumer protection laws by, thrift institutions, and to support their role as home mortgage lenders and providers of other community credit and financial services. OTS also oversees the activities and operations of thrift holding companies that own or control thrift institutions. Copies of OTS news releases and other documents are available at the OTS web page at www.ots.treas.gov.