



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, D.C. 20429-9990

**Financial Institution Letter**  
**FIL-89-2006**  
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## **INTERAGENCY GUIDANCE**

### **Guidance on Nontraditional Mortgage Product Risks, and Addendum to Credit Risk Management Guidance for Home Equity Lending**

**Summary:** The federal financial regulatory agencies have issued the attached *Interagency Guidance on Nontraditional Mortgage Product Risks* (NTM Guidance) and an *Addendum to the Credit Risk Management Guidance for Home Equity Lending* (HE Addendum). These documents describe how financial institutions should both address the risks associated with underwriting nontraditional mortgage loan products and provide consumers with clear and balanced information before they make a product or payment choice.

#### **Distribution:**

FDIC-Supervised Banks (Commercial and Savings)

#### **Suggested Routing:**

Chief Executive Officer  
Chief Loan Officer  
Chief Compliance Officer  
Chief Information Technology Officer

#### **Related Topics:**

Credit Risk Management Guidance for Home Equity Lending; Risks Associated with Subprime Lending; Unfair and Deceptive Acts and Practices by State-Chartered Banks; and High Loan-to-Value Residential Real Estate Lending

#### **Attachments:**

. Interagency Guidance on Nontraditional Mortgage Product Risks  
. Addendum to Credit Risk Management Guidance for Home Equity Lending

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#### **Note:**

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#### **Highlights:**

- The NTM Guidance provides an overview of the loan underwriting standards, portfolio and risk management practices, and consumer protection issues for loan products that allow borrowers to defer payment of principal, and, sometimes, interest.
- The NTM Guidance stresses that financial institution management should:
  - Assess a borrower's ability to repay the loan, including any balances added through negative amortization, at the fully indexed rate that would apply after the introductory period, assuming a fully amortizing repayment schedule;
  - Recognize that certain nontraditional mortgage loans warrant strong risk management standards as well as appropriate capital and loan loss reserves; and
  - Ensure that borrowers have sufficient information to clearly understand loan terms and associated risks prior to making a product or payment choice.
- The HE Addendum offers additional guidance for managing risks associated with open-end home equity lines of credit (HELOCs) that contain interest-only or negative amortization features.
- Both risk management and compliance examiners will carefully scrutinize institutions' processes, policies and procedures to ensure that their practices adequately address the risks posed by these products.