



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

**Financial Institution Letter**  
**FIL-35-2007**  
**April 17, 2007**

## **WORKING WITH RESIDENTIAL BORROWERS**

### **FDIC Encourages Institutions to Consider Workout Arrangements for Borrowers Unable to Make Mortgage Payments**

**Summary:** The Federal Deposit Insurance Corporation (FDIC) encourages financial institutions to work constructively with residential borrowers who are financially unable to make their contractual payments on their home loans. Prudent workout arrangements are generally in the long-term best interest of both the financial institution and the borrower.

#### **Distribution:**

FDIC-Supervised Banks (Commercial and Savings)

#### **Suggested Routing:**

Chief Executive Officer  
Chief Loan Officer  
Chief Compliance Officer

#### **Related Topics:**

. *Interagency Guidance on Nontraditional Mortgage Product Risks*  
<http://www.fdic.gov/news/news/financial/2006/fil06089.html>  
. *Interagency Questions and Answers on the Community Reinvestment Act* <http://www.ffiec.gov/cra/pdf/qa01.pdf>  
. *Homeownership Counseling Act*  
<http://www.fdic.gov/news/news/financial/2002/fil0243.html>  
. HUD counseling services at (800) 569-4287 or at <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>  
. *NeighborWorks America* at (888) 995-HOPE (4673) or <http://www.nw.org/network/neighborworksprogs/foreclosuresolutions/default.asp>  
. *HOPE for Homeowners* <http://www.995hope.org>

#### **Attachment:**

Statement on Working with Mortgage Borrowers

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#### **Note:**

FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at [www.fdic.gov/news/news/financial/2007/index.html](http://www.fdic.gov/news/news/financial/2007/index.html).

To receive FILs electronically, visit <http://www.fdic.gov/about/subscriptions/fil.html>.

Paper copies of FDIC financial institution letters may be obtained via the FDIC's Public Information Center (1-877-275-3342 or 703-562-2200).

#### **Highlights:**

- Many residential borrowers may face significant payment increases when their adjustable-rate mortgage loans reset in the coming months. These borrowers may not have sufficient financial capacity to service a higher debt load, especially if they were qualified based on a low introductory payment.
- The FDIC encourages financial institutions to consider prudent workout arrangements that increase the potential for residential borrowers to keep their homes. For example, institutions might consider modifying loan terms, including converting loans with variable rates into fixed rate products to provide financially stressed borrowers with predictable payment requirements.
- Financial institutions do not face regulatory penalties if they pursue reasonable workout arrangements with borrowers who have encountered financial problems. Financial institutions should follow prudent underwriting practices in determining whether to consider a workout arrangement.
- Institutions may receive favorable Community Reinvestment Act consideration for programs that transition low- and moderate-income borrowers from higher cost loans to lower cost loans, provided that all loans are made in a safe and sound manner.
- Institutions are reminded of the Homeownership Counseling Act and the Servicemembers Civil Relief Act requirements.
- Working closely with lenders, reputable organizations can help borrowers avoid foreclosure. These organizations include the Center for Foreclosure Solutions sponsored by NeighborWorks and HOPE for Homeowners.