



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

**Financial Institution Letter**  
**FIL-62-2007**  
**July 10, 2007**

## **SUBPRIME MORTGAGE LENDING**

### **Interagency Statement Addresses Safety and Soundness and Consumer Protection Standards**

**Summary:** The federal financial regulatory agencies have issued the attached Statement on Subprime Mortgage Lending that addresses issues relating to certain adjustable-rate mortgage (ARM) products that can cause payment shock. The Statement establishes prudent safety and soundness and consumer protection standards that should be followed to ensure that consumers, especially subprime borrowers, obtain loans they can afford to repay and receive information that adequately describes product features.

#### **Distribution:**

FDIC-Supervised Banks (Commercial and Savings)

#### **Suggested Routing:**

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

#### **Related Topics:**

Interagency Guidelines for Real Estate Lending; Interagency Guidelines on Subprime Lending; Expanded Examination Guidance for Subprime Lending Programs; Interagency Guidance on Nontraditional Mortgage Product Risks; and Unfair and Deceptive Acts and Practices by State-Chartered Banks

#### **Attachment:**

Statement on Subprime Mortgage Lending

#### **Contact:**

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#### **Note:**

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#### **Highlights:**

- The Statement establishes prudent risk management practices for institutions offering certain ARM products. These practices include:
  - Ensuring that institutions do not engage in predatory lending;
  - Assessing a borrower's ability to repay the loan at the fully indexed rate that would apply after the introductory period, assuming a fully amortizing repayment schedule;
  - Accepting stated income or reduced documentation only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity.
- The Statement encourages institutions to work constructively with residential borrowers who are in default or whose default is reasonably foreseeable. Prudent workout arrangements that are consistent with safe and sound lending practices are generally in the best long-term interest of both financial institutions and borrowers.
- The Statement also establishes consumer protection standards that include providing consumers clear and balanced product disclosures and guidelines on prepayment penalties.
- The Statement reiterates that institutions should develop strong control systems to monitor compliance with risk management and consumer protection policies and practices.
- The Statement reminds institutions that their supervisory agencies will continue to carefully review risk management and consumer compliance processes, policies and procedures.

