FDIC

Federal Deposit Insurance Corporation
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Financial Institution Letter
FIL-77-2007
September 4, 2007

SERVICING FOR MORTGAGE LOANS

Supplemental Information for Loss Mitigation Strategies

Summary: As supplemental information to FIL-76-2007 on the interagency "Statement on Loss Mitigation Strategies for Servicers of Residential Mortgages," the FDIC, the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) encourage servicers to consider the borrower's ability to repay modified obligations, taking into account the borrower's total monthly housing-related payments as a percentage of the borrower's gross monthly income (referred to as the debt-to-income or "DTI" ratio). Attention should also be given to the borrower's other obligations and resources, as well as additional factors that could affect the borrower's capacity to repay. DTI ratios exceeding 50 percent will increase the likelihood of future difficulties in repayment and delinquencies or defaults.

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FDIC-Supervised Banks (Commercial and Savings)

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Loss Mitigation Strategies

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Highlights:

- The FDIC, CSBS and AARMR encourage supervised institutions to apply loss mitigation techniques that will achieve long-term, sustainable obligations to provide stability to borrowers, investors and the marketplace.
- In developing the appropriate loss mitigation strategy for individual borrowers, it is essential to consider the borrower's ability to repay the modified obligation.
- As noted in the interagency Statement, one methodology commonly used by servicers is an analysis of the borrower's resulting debt-to-income ratio. The DTI ratio should include the customer's total monthly housing-related payments (e.g., principal, interest, taxes and insurance, or what is commonly known as "PITI") as a percentage of the borrower's gross monthly income. Attention should also be given to the borrower's other obligations and resources, as well as additional factors that could affect the borrower's capacity to repay.
- In applying the DTI ratio to evaluate the borrower's ability to repay the modified obligation, the FDIC, CSBS and AARMR note that, absent mitigating circumstances, resulting DTI ratios exceeding 50 percent will increase the likelihood of future difficulties in repayment and delinquencies or defaults.