



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

Financial Institution Letter
FIL-26-2007
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SUBPRIME MORTGAGE LENDING

Interagency Proposed Statement on Subprime Mortgage Lending

Summary: The federal financial regulatory agencies are seeking comment on the attached proposed *Statement on Subprime Mortgage Lending (Subprime Statement)*. The *Subprime Statement* addresses the risks and emerging issues relating to subprime mortgage lending practices, most notably certain adjustable-rate mortgage (ARM) lending products. Comments are due by May 7, 2007.

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FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Chief Loan Officer
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Related Topics:

Real Estate Lending
Subprime Lending
Nontraditional Mortgage Lending

Attachment:

Proposed Statement on Subprime Mortgage Lending

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Note:

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Highlights:

The proposed *Subprime Statement* :

- Focuses on loans that involve repayment terms that exceed the borrower's ability to service the debt without refinancing or selling the property.
- Addresses concerns that subprime borrowers may not fully understand the risks and consequences of obtaining these products, and that the products may pose an elevated credit risk to financial institutions.
- Underscores that prudent underwriting standards recognize the potential effect of payment shock in evaluating borrowers' ability to service debt.
- Emphasizes that communications with consumers should provide clear and balanced information about the relative benefits and risks of the products.
- Directs both risk management and compliance examiners to carefully scrutinize institutions' processes, policies and procedures to ensure that their practices adequately address the risk of these products.

The FDIC encourages institutions that offer subprime mortgage products to review and comment on the attached *Subprime Statement*.