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March 27, 2007

Robert Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

RE: Statement of Subprime Mortgage Lending

Dear Mr. Feldman:

As active participants in the mortgage market, we welcome this opportunity to comment on the proposed Statement of Subprime Mortgage Lending. We appreciate and commend the significant steps taken by the Agencies to improve upon the 2006 Interagency Guidance on Nontraditional Mortgage Product Risks, which did not address the risks of subprime adjustable rate mortgages (ARMs).

Over 80% of recent subprime mortgage originations consist of ARM products that reset from two- or three-year low fixed introductory rates to much higher adjustable rates. While the initial teaser rate in 2006 was approximately 8.1% the average reset rate is six-month LIBOR plus 600 basis points, or approximately 11.3%. Since the debt service to gross income of the average subprime borrower is already 40% based on the teaser rate, it can be assumed that almost none, if any, of the subprime borrowers will be able to pay the higher reset rate. The universal assumption amongst subprime mortgage originators and lenders is that the borrower will refinance when the loan resets.

Subprime ARM products work as long as home prices appreciate providing the opportunity for the borrower to either refinance or sell when the loan resets. However, when home price appreciation is flat at reset, severe credit problems will develop as the borrower can no longer refinance or sell to pay off the old loan and cannot pay the higher reset rate. It does no good to provide 30-year mortgages to homeowners who cannot afford to pay the reset rate after the two-year teaser rate expires.

We support the adoption of the proposed guideline to qualify subprime borrowers at the fully indexed rate. We believe that the current credit environment is deleterious to subprime borrowers and stronger measures are needed to protect borrowers from predatory lending and over-leveraged borrowing. We hope that this letter is helpful to the Agencies as you begin to finalize the Statement. Please feel free to call me if you have any questions about our comments.

Sincerely,

John Paulson
President