CITYBANK

March 30, 2007

Robert E. Feldman, Executive Secretary
Attention: Comments
FDIC
550 17th Street NW
Washington, DC 20429

RE: Comments on Subprime Mortgage Lending

Dear Mr. Feldman:

Below are our comments on the concerns raised under the joint agency comment request on Subprime Mortgage Lending.

Concern 1: Do these arrangements always present inappropriate risk to institutions and consumers that should be discouraged, or alternatively, when and under what circumstances are they appropriate?

Generally, yes these types of loans present a substantial risk to both the consumer and the financial institution.

A review of the history of any subprime loan would likely indicate that the borrower was forced to either sell the property or refinance at the time the loan reset. Rare is the borrower that can make the new loan payment, which results from an interest rate increase of 4% - 6%. It would be even more unusual to find any subprime borrower with the financial capacity to do so. Depending on the specific loan, this payment increase will happen in two or three years. These loans create a built-in refinance pipeline for the subprime loan originator.

There exist certain borrower profiles that result in appropriate risk for these programs. These profiles are generally the result of exterior issues and were beyond the control of the borrower. The issues happened in the past and the situation no longer exists. The borrower's credit issues, however, result in residual negative credit information making subprime lending one of the few alternatives to home ownership.

These certain borrower profiles are a small percentage of the universe of subprime loan originations. The majority of these subprime borrowers either would have been better served with an FHA program or counseling to allow qualifying for traditional loan products when the issues were addressed that placed them in the subprime category.

Concern 2: Does the proposed statement unduly restrict existing subprime borrowers' ability to refinance their homes?

There is no question that this proposed statement would restrict the existing subprime borrowers' ability to refinance their homes. At least it would restrict them from refinancing into another subprime loan, a loan that two or three years later they would refinance into once again. It is unlikely any subprime borrower would ever be inclined, or even capable, of absorbing the payment increase at the time the interest rate and loan payment amount reset. And, each time they refinanced, they would use their equity to absorb the refinance costs until such time as their equity was exhausted.

Concern 3: Are there other forms of credit available that would not present the risk of payment shock?

Many/most subprime borrowers would be better served with FHA loans. These loans are not available to many mortgage brokers; subprime loans are. Even to mortgage brokers that have FHA products available, FHA loans do not represent the revenue provided by subprime loans nor the captive source of future earnings that result from the necessity of the subprime borrower to refinance at the reset date.

Concern 4: Should the principles of the proposed statement be applied beyond the subprime ARM market?

In our opinion the principles are already generally applied beyond the subprime market. However, any time a loan originator's income can be increased simply by recommending one product over another, regardless that the product is not a benefit to the borrower, there is abuse. This is further compounded by the fact that the loan originator knows that this borrower will be a source of refinance within a two to three year period. The issue is one of oversight and accountability. These both exist in the FHA arena and are non-existent in subprime lending.

Concern 5: Would an institution's limiting of prepayment penalties to the initial fixed-rate period assist consumers by providing them time to assess and act on their mortgage needs?

A prepayment penalty can have value. There are circumstances when it offers benefit to the borrowers. As with subprime loans, there exist certain borrower profiles that result in a value provided by a prepayment penalty.

What is not appropriate is a prepayment penalty that extends past the time the loan resets.

Additional legislation will not provide any benefit to the consumer. Congress has already mandated an overwhelming amount of required disclosures for every element of the consumer lending transactions. The borrower is unable to digest the level and amount of disclosures currently provided at application, during loan processing, and at closing.

Federally regulated institutions are currently one of the most regulated business industries. In our opinion the current regulations, which we are required to comply with, are more than sufficient to provide consumers with the appropriate disclosures in regards to all types of consumer lending. In 2005 52% of subprime mortgages were originated by companies with no federal supervision, primarily mortgage brokers and stand-alone finance companies.

This issue would not exist, certainly to this magnitude, if the secondary market had not had such a voracious appetite for the subprime loan product. This appetite has waned due to the deterioration by the subprime loan portfolio performance. If there were no secondary market for the sale of these loans, the origination of them would cease. Also this type of financing probably impacted the level of appreciation, in the residential sector in certain markets, fueling the "bubble" seen in home prices.

Sincerely,

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