

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

March 9, 2007

**BANKING SUPERVISION AND REGULATION:
REQUEST FOR COMMENT**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Request for Comment on Subprime Mortgage Lending Statement

The federal financial regulatory agencies issued for comment a proposed Statement on Subprime Mortgage Lending to address certain risks and emerging issues relating to subprime mortgage lending practices, specifically, particular adjustable-rate mortgage (ARM) lending products. The term "subprime" is defined in the Expanded Guidance for Subprime Lending Programs, issued by the agencies on January 31, 2001.

The proposal 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. In particular, the proposed guidance focuses on loans that involve repayment terms that exceed the borrower's ability to service the debt without refinancing or selling the property.

The statement specifies that an institution's analysis of a borrower's repayment capacity should include an evaluation of the borrower's ability to repay the debt by its final maturity at the fully indexed rate, assuming a fully amortizing repayment schedule. The statement also underscores that communications with consumers should provide clear and balanced information about the relative benefits and risks of the products. If adopted, this statement would complement the 2006 Interagency Guidance on Nontraditional Mortgage Product Risks, which did not specifically address the risks of these ARM products.

The agencies request comment on all aspects of the proposed statement and are particularly interested in public comment about the following:

1. Whether these arrangements always present inappropriate risks to institutions and consumers, or the extent to which they can be appropriate under some circumstances
2. Whether the proposed statement would unduly restrict existing subprime borrowers' ability to refinance their loans
3. Whether other forms of credit are available that would not present the risk of payment shock
4. Whether the principles of the proposed statement should be applied beyond the subprime ARM market
5. Whether an institution's limiting of prepayment penalties to the initial fixed-rate period would assist consumers by providing them sufficient time to assess and act on their mortgage needs

The docket is attached. Comments are requested by May 7, 2007.

Additional Information

All circulars and documents are available on the internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact our Banking Supervision and Regulation Department at (415) 974-3028.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Attachment: [Docket No. 1278](#)