

Interagency Guidance
on
Nontraditional Mortgage Products

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Interagency Guidance on Nontraditional Mortgage Products

- **Sound Loan Terms and Underwriting Standards**
 - Appropriate borrower repayment analysis, including debt service capacity
 - Consideration of the effects of below market introductory rates
 - Consideration of the effects of reduced, delayed or negative amortization
 - Mitigation of reduced- or no-documentation qualification risk
 - Avoidance of collateral-based lending
 - Particular risks of non-traditional products in the sub-prime space
 - Particular risks of non-traditional products for non-owner-occupied properties

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- **Appropriate Portfolio and Risk Management**
 - Develop policies and internal controls on:
 - Product Attributes
 - Portfolio size and concentration limits
 - Third-party originations
 - Secondary marketing activities
 - Good performance measures and expected standards of performance
 - Monitoring / management reporting systems that alert to changing or rising risk
 - Appropriate Allowance for Loan Loss for quality, performance and collectibility
 - Adequate capital levels for portfolio characteristics and observed performance
 - Sound practices to value mortgage servicing rights

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- **Effective Consumer Protection Measures**
 - Clear and balanced disclosure of product features, risks and benefits
 - Disclosures provided early; during the shopping process
 - Appropriate promotional materials
 - Clear and complete product descriptions including realistic examples
 - Adequate information on monthly billing statements
 - Avoidance of practices that obscure significant product risks
 - Ensuring actual practices follow established policy and procedures

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- **Specific Comments Requested**

- Should qualification assume borrower makes only minimum payments for as long as possible?
- Should “stated income” loans be permitted, and:
 - What mitigating factors would justify the increased risk
 - What other forms of reduced documentation are appropriate
 - Should no- or low-documentation loans be permitted for subprime borrowers
- Should qualification include analysis of future income relative to payment changes, and if so, what other factors should be projected as well?