



Office of Federal Housing Enterprise Oversight
(OFHEO)

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STATEMENT

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Statement of OFHEO Director James B. Lockhart on Issuance of Letters by Fannie Mae and Freddie Mac Regarding Nontraditional and Subprime Mortgage Products

Fannie Mae and Freddie Mac today issued letters to their lender customers setting forth a program for assuring the Enterprises purchase mortgages made in conformance with the *Interagency Guidance on Nontraditional Mortgage Product Risks*. This guidance was promulgated by federal depository institution regulators and adopted by many state financial regulators. OFHEO made this guidance applicable to Fannie Mae and Freddie Mac. The guidance focuses on certain classes of mortgages with unique underwriting criteria, which typically allow borrowers to defer principal and, sometimes, interest. They include loan products that offer low introductory interest rates that later reset to higher rates and/or have flexible payment options with the potential for negative amortization. The *Interagency Guidance* was designed to ensure consistent application of sound and prudent credit underwriting standards, risk management practices, and protections for the consumer.

Fannie Mae and Freddie Mac have taken proactive steps to assure that sellers are clear as to what mortgages the Enterprises will accept and what they will reject and how they will work to assure conformance with the *Interagency Guidance*. They announced that all mortgages sold to the Enterprises with an application date on or after September 13, 2007 must conform to the guidance, but they are encouraging lenders to conform with the guidance as soon as possible. Additionally, the Enterprises indicated that their automated underwriting systems will be modified soon to further enhance their support for the *Interagency Guidance*.

Fannie Mae and Freddie Mac also have indicated that in the near future they will implement a program to address subprime mortgages, again in support of a

recently finalized guidance by the federal depository institution regulators, *Statement on Subprime Mortgage Lending*.

OFHEO Director James B. Lockhart said: “These initiatives by the Enterprises support the guidances issued by federal and state financial regulators and will address most originators of mortgages, both regulated and unregulated. This is a significant step. OFHEO will continue to work with federal and state regulators and the Enterprises to assure conformance with both the *Interagency Guidance* and the *Subprime Statement*. These actions reinforce the necessity for safe and sound underwriting practices, which serve the interests of lenders and borrowers in promoting sustained homeownership.”

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OFHEO's mission is to promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac.