



March 29, 2006

Mary F. Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Comments on Proposed Interagency Guidance on Nontraditional
Mortgages

Dear Ms. Rupp:

I am writing on behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), in response to the Agencies' request for comment on proposed interagency guidance regarding nontraditional mortgage products. The proposed guidance has been issued by the National Credit Union Administration, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (the Agencies).

The proposed guidance addresses residential mortgage products that allow borrowers to defer repayment of principal and/or interest, including "interest-only" mortgage loans and "payment option" adjustable rate mortgages (ARMs). These products carry greater risks due to the lack of principal amortization and potential accumulation of negative amortization.

Due to concern that these product innovations are increasingly being offered to borrowers who may not fully appreciate the unique risks associated with nontraditional mortgage products, the proposed guidance discusses prudent loan terms and underwriting standards, suggests appropriate portfolio and risk management practices, and recommends best practices for consumer protection.

NAFCU believes credit unions should carefully manage risk exposures when participating in nontraditional lending activities and risk-layering practices and generally

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supports the proposed guidance. However, NAFCU would like to take the opportunity to submit the following comments.

Use of Reduced Documentation

The Agencies have requested comment on whether the use of the reduced documentation feature referred to as "stated income" would be appropriate in certain circumstances.

NAFCU recommends that reduced documentation should be available for well-qualified borrowers. Particularly in circumstances where the credit union offers risk-based pricing, in which the borrower's employment history, credit history, etc. are considered, it may be appropriate to rely on stated income in underwriting a nontraditional mortgage loan. NAFCU does not believe, however, that reduced documentation would be appropriate for sub-prime borrowers under any circumstances.

Consideration of Future Income

Comment is also sought on whether the guidance should be considered in the qualification standards for nontraditional mortgage loans with deferred principal and interest payments.

Because future income cannot be guaranteed, loan qualifications should generally be based only on current verifiable income. In some limited circumstances, however, NAFCU believes that consideration of future income is appropriate. For example, where future income can be documented (e.g. employment contract), or where a borrower has just recently joined the workforce (e.g. recent college graduate), a conservative estimate of future income may be suitable.

NAFCU would like to thank you for this opportunity to share its views on this proposed interagency guidance. Should you have any questions or require additional information please call me or Pamela Yu, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 218.

Sincerely,



Fred R. Becker, Jr.
President/CEO

FRB/pwy