Jordan, Sheron

From: _Regulatory Comments
Sent: Tuesday, May 08, 2007 8:24 AM
To: Jordan, Sheron; PHARISS, CORY W
Subject: FW: VACU comments on Subprime Mortgage Lending Statement

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From: Beverley Rutherford [mailto:beverley.rutherford@vacu.org]
Sent: Monday, May 07, 2007 2:28 PM
To: _Regulatory Comments
Subject: VACU comments on Subprime Mortgage Lending Statement

Thank you for the opportunity to comment on the proposed Statement on Subprime Mortgage Lending that addresses risk and other issues relating to subprime mortgage lending practices, specifically for adjustable rate mortgages. I am responding on behalf of a $1.4 billion state chartered credit union in Virginia.

NCUA, along with other federal financial institution regulators, had requested comments on several questions; our responses immediately follow the questions below:

1. The proposed qualification standards are likely to result in fewer borrowers qualifying for the type of subprime loans addressed in this Statement, with no guarantee that such borrowers will qualify for alternative loans in the same amount. Do such loans always present inappropriate risks to lenders or borrowers that should be discouraged, or alternatively, when and under what circumstances are they appropriate?

   If used specifically in the subprime environment, they can present increased risk for both parties; however these products can and are appropriate to more informed and qualified borrowers. Prudent underwriting and borrower education should help make these loans appropriate in certain situations. To just mass label all of these products as inappropriate may be overstating the risk and understating the possible benefits to a prospective borrower.

2. Will the proposed Statement unduly restrict the ability of existing subprime borrowers to refinance their loans and avoid payment shock? The Agencies also are specifically interested in the availability of mortgage products that would not present the risk of payment shock.

   As it is written, it may very well preclude the ability to accommodate borrowers who may be in a “payment shock” scenario. When you consider the various possibilities of the original loan scenario such as low interest rate, interest only or negatively amortizing loans, in addition to high loan to value and challenged credit, it may create a scenario where the loan is now over 100% loan to value and even the interest rate on a more conservative, fixed rate mortgage will still be a shock from an initial teaser rate. Perhaps more accommodative products and initiatives need to be created to provide relief for certain borrowers.

3. Should the principles of this proposed Statement be applied beyond the subprime ARM market?

   We do not believe the principles should apply beyond the subprime ARM market. If you over apply this guidance you may very well just tighten over all available credit, and restrict the subprime market even further. Additionally, applying the principles further may result in the eventual tightening of underwriting guidelines. Further, focusing primarily on specific aspects of existing products, such as NINA (Low Doc) or Interest Only, whether it be sub prime or not, may create unnecessary restrictions. These products have and can continue to serve as an appropriate tool to assist qualified individuals get into homes.

4. We seek comment on the practice of institutions that limit prepayment penalties to the initial fixed rate period. Additionally, we seek comment on how this practice, if adopted, would assist consumers and impact institutions, by providing borrowers with a timely opportunity to determine appropriate actions relating to their

mortgages. We also seek comment on whether an institution's limiting of the expiration of prepayment penalties such that they occur within the final 90 days of the fixed rate period is a practice that would help meet borrower needs.

Our credit union does not assess prepayment penalties. However we believe it typically comes down to how prepayment penalties are leveraged. If you add the prepayment penalty to compensate for the benefit the borrower received, then a prepayment penalty protects the lender from runoff due to refinancing. The purpose of the prepayment penalty is to discourage the borrower from taking the product, only to refinance at a later date when the loan adjusts. It should bring pause to the borrower when disclosed correctly. By restricting this just to the initial fixed rate period, there is no deterrent to the borrower or protection to the lender, so the prepayment penalty becomes inherently useless. Perhaps the Margins and Caps for these products should be the focus. If a borrower receives the benefit of a lower rate, then the lender should be able to recoup some of that cost if the loan refinances early. If reasonable caps are in place for ARMs then the payment shock should be minimized for the borrower. If the caps are too restrictive for the lender to make a suitable income, then they may avoid offering the product. This may help manage the underwriting risk a lender may be willing to take, and therefore result in more prudent underwriting and risk assessment.

Please feel free to contact me should you have any questions or need clarification on any of our responses.

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