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May 7, 2007

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

RE: Comments on Proposed Statement on Subprime Mortgage Lending

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 request for public comment on the proposed interagency Statement on Subprime Mortgage Lending 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 Statement addresses emerging issues and questions relating to specific subprime mortgage lending practices, including certain adjustable-rate mortgage (ARM) lending products.

In recent years, the subprime mortgage market has introduced products that are meant to provide temporary credit solutions in anticipation of early sale or refinancing. As such, loans often involve terms that exceed the borrower's ability to service the debt without either refinancing or selling the property. Due to growing concerns that subprime borrowers may not fully understand the risks and consequences of obtaining certain ARM products, the proposed Statement outlines criteria and factors—including payment shock—that institutions should assess in determining a borrower's ability to repay a subprime loan. In particular, the proposal focuses on loans that involve repayment terms that exceed the borrower's ability to repay the loan without refinancing or selling the property. It also discusses consumer protection issues and practices, and emphasizes the need for processes, policies, procedures, and systems to assure that institutions' subprime mortgage lending is conducted in a safe and sound manner.

NAFCU recognizes the importance of prudent underwriting standards in subprime lending activities. NAFCU generally supports the proposed guidance; however, we would like to take the opportunity to submit the following specific comments.

Impact on Availability of Credit

The Agencies have requested comment on whether the proposed qualification standards will likely impact the availability of credit for subprime borrowers by reducing the number of borrowers who will qualify for certain subprime loans.

NAFCU agrees that the proposed standards may result in fewer borrowers qualifying for certain subprime loans; however, NAFCU firmly believes that any reduction in available subprime mortgage credit due to more vigilant underwriting and clearer and more balanced communications with consumers would ultimately be in the best interest of American consumers.

The evolution of the subprime mortgage market in recent years—in particular, the growing prominence of short-term credit arrangements that anticipate early sale or refinancing—has significantly diluted traditional underwriting guidelines. NAFCU and its member credit unions strongly believe that helping members to achieve the American dream of homeownership should not come at the expense of borrowers' overall financial well being. It is NAFCU's opinion that prudent underwriting is in the interest of both lenders and borrowers. Accordingly, NAFCU agrees that qualifying standards must recognize the potential effect of payment shock in evaluating a borrower's ability to adequately service debt, particularly for subprime loans to marginal borrowers with poor or flawed credit histories.

Consumer Protection

NAFCU also feels it is imperative that consumers be fully informed of the material terms, costs, and risks associated with a particular mortgage loan so they are able to obtain loan products and choose among payment options that best fit their individual needs. As such, NAFCU generally supports the broad consumer protection principles articulated in the proposed Statement. NAFCU does not, however, feel it is necessary to mandate additional advertising disclosures beyond those already required by the Federal Reserve Board's Regulation Z when marketing all mortgage loan products. *See* 12 CFR 226.

In addition, NAFCU urges the Agencies to encourage lenders to offer financial education to subprime borrowers. The credit union mission has always been to promote savings and credit union employees are among the first and finest financial educators in America. Today, many credit unions offer educational seminars, informational brochures, or financial counseling for hopeful homebuyers. These education services can help potential borrowers to understand the risks associated with subprime and other mortgage loans, and to appreciate the potential consequences of certain loan products.

Informed Consumer Choice

NAFCU does not believe that the types of loans addressed in the proposal necessarily present inappropriate risks to lenders or borrowers, such that they must always be discouraged.

Subprime lending programs provide an important means by which credit unions may more effectively meet the needs of consumers, particularly low-income consumers, individuals with little credit history or bad credit, and first-time homebuyers. Although subprime borrowers may pay higher rates than borrowers with strong credit histories, subprime mortgage lending is an important tool in facilitating home ownership across the nation. NAFCU strongly believes that subprime lending can provide real benefits to underserved consumers by increasing loan availability for those who might not otherwise qualify for mortgage credit. However, NAFCU feels that it is crucial that borrowers be fully informed of their options so they are able to obtain loan products that are most suitable to their specific needs.

To a certain extent, an elevated credit risk is inherent to the subprime lending activities addressed by the proposed guidance; however, in some circumstances, NAFCU believes that certain ARM products may be appropriate, despite the risk of payment shock. For example, for a transient borrower who plans to stay in a home for only a short period of time, a traditional fixed-rate thirty-year mortgage may not be suitable. Additionally, where income is reasonably expected to substantially increase (e.g. due to an employment contract or recent college graduation), loan qualification based on current income would not accurately capture a borrower's future income stream and ability to cope with impending rate adjustments. Nevertheless, future income cannot be guaranteed; thus, NAFCU believes that loan qualifications should generally be based only on either current verifiable income or a conservative estimate of future income.

Scope of the Proposed Principles

Comment is also sought on whether the principles of the proposed Statement should be applied beyond the subprime ARM market.

Very few credit unions are currently involved in subprime mortgage lending. Indeed, the Federal Reserve Board's data demonstrates that the percentage of credit union mortgage loans above the Treasury benchmark is very small. *See* FFIEC HMDA data. Furthermore, conventional ARMs, which have been present in the marketplace for many years and for which there are already time-tested standards in place to ensure sound underwriting, have a record of acceptable performance, particularly among credit unions where the historical delinquency rate is only 0.17% (1990-2006). At the same time, credit unions are cognizant of the overarching principles addressed in the proposal and recognize the need for and importance of safe and sound underwriting standards for all real estate loans, particularly certain subprime ARMs that pose a significant risk of sudden payment shock. Accordingly, NAFCU believes that while the basic tenets of the proposed Statement articulate sound, broad-based underwriting principles that might be considered in conventional underwriting, given its already broad focus, it is unnecessary to extend the scope of the proposed guidance beyond the subprime market.

NAFCU would like to commend the Agencies' efforts in addressing the considerable concerns regarding subprime mortgage lending and appreciate the 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

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