NAVY FEDERAL Credit Union®

Office of the President

September 20, 2007

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Proposed Illustrations of Consumer Information for Subprime Mortgage Lending

Dear Ms. Rupp:

Navy Federal Credit Union provides the following comments in response to the Proposed Illustrations of Consumer Information for Subprime Mortgage Lending issued by the National Credit Union Administration (NCUA), Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of Thrift Supervision (the Agencies). Navy Federal is the nation's largest natural person credit union with $30 billion in assets and nearly 3 million members.

Navy Federal believes that the Federal Register title *Illustrations of Consumer Information for Subprime Mortgage Lending* as applied to these illustrations blurs the meaning of subprime lending. The current Federal Register title misrepresents ARMs as being subprime products, leading to continued misinterpretation of subprime mortgage lending. The title may mislead the industry, and consequently the borrowers, to believe that all ARM products are subprime when, in fact, they are simply non-traditional, as discussed in the *Interagency Guidance on Nontraditional Mortgage Product Risk*. We ask that the Agencies change the Federal Register title to correctly reflect the features of adjustable rate mortgage (ARM) products. We suggest that the Federal Register title be changed to "Characteristics of Adjustable Rate Mortgages for Subprime Borrowers." This suggested title differentiates between borrower characteristics and loan characteristics -- a distinction lacking in the proposed title.

NCUA has issued two regulatory documents supporting our belief that there should be a clear distinction between borrower and loan characteristics. In their September 2004 Letter to Credit Unions regarding specialized lending activities, NCUA identifies subprime mortgage lending as "the practice of extending credit to borrowers who have weak credit histories (e.g., delinquent payments, charge-offs, judgments, bankruptcies), or reduced payment capacity (e.g., high-debt ratios or low credit scores)." Subsequently, in June 2005, NCUA issued Risk Alert 05-RISK-01, which states that "while there is no industry standard range of credit scores that describe subprime borrowers, those borrowers with credit scores below 620 generally have a higher loan default rate." These suggest that subprime lending describes attributes of the borrower and not characteristics of the loan, e.g. the mortgage product. According to the *Statement on Subprime Lending*, the Agencies are concerned that subprime borrowers are offered ARMs when they may not fully understand the risks associated with this product. Therefore, the Federal Register title should reflect the intent of the illustrations to educate subprime borrowers on the characteristics of ARM products.

In addition, we ask that the Agencies review the consistency in wording and tone of Illustration 1. Specifically, we find that the subheadings imply all ARMs will have the expressed features, while the respective paragraphs state otherwise. These illustrations intend to educate consumers on the risks of ARM products, but such paradoxical language would confuse consumers. It is misleading to suggest in the subheadings that all ARM products contain these characteristics when in fact they may not. We ask that the subheadings be corrected to conform to their respective paragraphs in expressing the possibility of the ARM feature as opposed to stating that the loan will in fact contain the feature explained. It is imperative for the illustrations to be clearer in their explanations of ARM terms, as the Agencies allow for lenders to photocopy the illustrations for distribution to borrowers.

Navy Federal appreciates the opportunity to comment on the proposed illustrations and agrees with the Agencies' belief that consumers should be fully informed before assuming responsibility for an ARM. We believe that the proposed illustrations could be revised to provide financial institutions a useful aid in explaining to consumers the risks associated with ARMs. If you have any questions with respect to our comments, please contact Shannon Tackett, Policy Analyst, at (703) 206-2577.

Sincerely,

Cutler Dawson

Cutler Dawson
President/CEO

CD/st