

# NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION  
1775 Duke Street, Alexandria, VA 22314

**DATE:** June 2008 **LETTER NO.:** 08-CU-14

**TO:** Federally Insured Credit Unions

**SUBJ:** Consumer Information for Hybrid Adjustable Rate Mortgage Products

**ENCL:** Illustrations of Consumer Information for Hybrid Adjustable Rate Mortgage Products

**REF:** Interagency Statement on Subprime Mortgage Lending

Dear Board of Directors,

The purpose of this Letter is to provide all Federally Insured Credit Unions with the final *Interagency Illustrations of Consumer Information for Hybrid Adjustable Rate Mortgage Products*, particularly those products that offer a low introductory “teaser” rate that could lead to payment shock when associated interest rates reset. These illustrations were produced jointly by the Federal Financial Institutions Examination Council (FFIEC<sup>1</sup>) to assist institutions in implementing the consumer information recommendations of the recently issued *Interagency Statement on Subprime Mortgage Lending (Subprime Statement)*.<sup>2</sup>

The Subprime Statement was developed to clarify how institutions can offer certain adjustable rate mortgage products in a safe and sound manner, and in a way that clearly discloses the risks that borrowers may assume. The Consumer Protection Principles portion of the Subprime Statement set forth recommended practices to ensure consumers have clear and balanced information about the relative benefits and risks of adjustable rate mortgage products. Additionally, borrowers may not be adequately informed of certain product features and risks,

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<sup>1</sup> The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision.

<sup>2</sup> See NCUA Letter to Credit Unions 07-CU-09, titled *Interagency Statement on Subprime Mortgage Lending*, at the following link: <http://www.ncua.gov/letters/2007/CU/07-CU-09.pdf>.

including their responsibility to pay taxes and insurance, which might be separate from their mortgage payments.

The FFIEC developed these illustrations to demonstrate the type of consumer information contemplated by the Subprime Statement. The enclosed illustrations are *not* required disclosures or model forms. Credit unions may choose whether or not to use these illustrations in implementing the recommendations of the Subprime Statement. Credit unions may also choose to tailor these illustrations to their particular circumstances, or provide the recommended consumer information in an appropriate, alternate format. For example, federal credit unions may appropriately delete references in Illustration 1 to prepayment penalties since they are prohibited from charging such penalties.

If you have any questions regarding the enclosed document, please contact your district examiner, regional office, or state supervisory authority.

Sincerely,

JoAnn Johnson  
Chairman

Enclosure