



## Office of Thrift Supervision

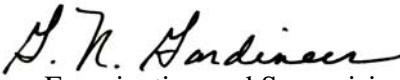
Department of the Treasury

*Examination and Supervision Policy*

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April 27, 2007

**MEMORANDUM FOR:** Holding Company Chief Executive Officers

**FROM:** Grovetta N. Gardineer   
Assistant Managing Director, Examination and Supervision Policy

**SUBJECT:** Interagency Guidance on Nontraditional Mortgage Product Risks

The Office of Thrift Supervision (OTS) and the other federal banking agencies issued the Interagency Guidance on Nontraditional Mortgage Product Risks (Guidance) for publication in the Federal Register on October 4, 2006. Most state regulators adopted virtually the same guidelines for mortgage brokers and mortgage companies that are not affiliated with an insured financial institution. To update the OTS Examination Handbook consistent with the Guidance, OTS revised [Section 212 -- One- to Four-Family Residential Real Estate Lending](#) on March 21, 2007. The Guidance, which is included as Appendix F to Section 212, describes sound practices for managing risk, as well as marketing, originating, and servicing nontraditional (alternative) mortgage products.

OTS is committed to the uniform application of the Guidance, including consumer protections for all borrowers as well as lending practices that reflect prudent loan terms and underwriting standards. In this regard, OTS is bringing the Guidance to your attention to ensure that you are aware of our supervisory expectations. If your organization offers alternative mortgage products, regardless of whether the activity is conducted within an insured financial institution or in another entity within your corporate family, OTS expects you to recognize and mitigate the risks inherent in such products. This includes ensuring that loan terms and underwriting standards are consistent with prudent lending practices, including credible consideration of a borrower's repayment capacity. It also includes ensuring that consumers are provided clear and balanced information about the relative benefits and risks at a time that allows them to make informed decisions.

In addition to the Guidance on nontraditional mortgage products, Examination Handbook Section 212 outlines other considerations related to one- to four-family residential real estate lending. Although directed primarily at insured institutions, Section 212 provides valuable guidance for any entity significantly engaged in this type of lending. If you have any questions, please contact Bill Magrini at (202) 906-7488, [William.Magrini@ots.treas.gov](mailto:William.Magrini@ots.treas.gov) or Glenn Gimble (202) 906-7158, [Glenn.Gimble@ots.treas.gov](mailto:Glenn.Gimble@ots.treas.gov).