FIRST FEDERAL BANK
OF CALIFORNIA
CORPORATE OFFICE: 401 WILSHIRE BLVD. • SANTA MONICA, CA 90401
PHONE (310) 319-6077 • FAX (310) 319-6046 • E-MAIL: danderson@firstfedca.com

David W. Anderson, Executive Vice President – Chief Credit Officer

May 4, 2007

Regulation Comments, Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attn: 2007-09

RE: Docket No. 2007-09 – Proposed Statement on Subprime Mortgage Lending

Dear Sir or Madam:

First Federal Bank of California (FFB) appreciates the opportunity to comment on the Proposed Statement on Subprime Mortgage Lending ("Statement") issued by 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"). FFB is a well capitalized $8.5 billion federal savings bank with its headquarters located in Santa Monica, California, with 33 branch offices and six loan offices throughout California.

While FFB is not a subprime lender, we are keenly aware of the issues surrounding the subprime industry and are monitoring any contagion effect the current problems might have on our business. FFB also understands and applauds the scrutiny being placed on the practices of subprime lenders and the Agencies' commitment to appropriately monitor the industry.

The Statement itself is meant to discuss various risk management practices, underwriting standards, and consumer disclosure practices, when making adjustable rate loans to subprime borrowers. However, while the focus is lending to subprime borrowers, the definition of a subprime borrower is merely a reference to the 2001

Expanded Guidance for Subprime Lending. The Statement focuses on general underwriting standards and guidelines primarily derived from the 2006 Interagency Guidance on Nontraditional Mortgage Products ("Guidance"). **It is important that the Agencies not lose sight of the fact that subprime is defined by the borrower, not by the loan product.** This is not clear within the Statement as the bulk of the text reiterates portions of the previously published Guidance. The Statement should clearly define what constitutes "Subprime Mortgage Lending".

The following comments are in response the request for comment on specific questions.

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?

No. The loans described in this Statement are not "subprime loans". The type of loan does not characterize a borrower, the borrower's credit characteristics define whether a loan is subprime.

Lending to subprime borrowers carries a higher degree of risk than lending to "Prime" borrowers. Lenders need to appropriately underwrite a loan expecting full repayment from the borrower under the parameters of the note. As noted in the Statement and Guidance "An institution's analysis of a borrower's repayment capacity should include an evaluation of the borrower's ability to repay the debt by its final maturity at the fully indexed rate, assuming a fully amortizing repayment schedule." Underwriting to a teaser rate limited by traditionally acceptable DTI ratios in imprudent. A loan product underwritten prudently does not increase risk; rather the borrower and underwriting standards are the primary determinants of risk.

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.

Examination findings and public complaints are the apparent driving forces for the Statement. As such, it is apparent that unqualified subprime borrowers were granted mortgages they may not have been able to afford. Therefore, it is logical to assume that the implementation of the Statement will restrict the ability of existing subprime borrowers to refinance their mortgages with a federally insured institution as many were not qualified for their loans past the initial teaser rate period. Unless there were significant changes to their financial position it is likely they still are not qualified for their loan, or a similarly sized loan under traditional underwriting criteria utilizing fully-indexed, amortizing market interest rates.

3) Should the principals of the proposed Statement be applied beyond the subprime ARM market?

No. As noted earlier, the bulk of the Statement covers adjustable rate mortgage loans with significant payment shock. These types of loans are addressed in the Guidance. If the Agencies wish to apply these additional standards beyond the subprime market, expand the Guidance rather than create an additional layer of regulation which will inhibit the continued innovation of mortgage products.

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.

The pre-payment penalty should be structured in such a manner that it does not inhibit a subprime borrower's ability to refinance their loan at the time the fixed rate period ends. Depending on the interest rate environment, a significant payment change may occur at the end of the fixed rate period. Adding a prohibitive pre-payment penalty may severely limit a borrower's options, increasing the likelihood of default.

Again, thank you for the opportunity to comment on the proposed Statement and your consideration.

Best regards,

David W. Anderson
EVP, Chief Credit Officer