



Office of Thrift Supervision

Department of the Treasury

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MEMORANDUM FOR: CHIEF EXECUTIVE OFFICERS

FROM: Montrice G. Yakimov, Managing Director *Montrice Yakimov*
Compliance and Consumer Protection

SUBJECT: Illustrations of Consumer Information for Hybrid Adjustable Rate
Mortgage Products

The Office of Thrift Supervision, together with the other financial institution regulatory agencies (collectively, the Agencies) issued a “Statement on Subprime Mortgage Lending” (Subprime Statement) in July 2007¹. The Subprime Statement addressed risks and consumer protection concerns raised by certain adjustable rate mortgage (ARM) products historically offered in the subprime market. Generally known as “hybrid ARMs”, these products often feature low initial payments based on a fixed introductory rate that expires after a short period and then adjusts to a variable rate plus a margin for the remaining term of the loan.

In issuing the Subprime Statement, the Agencies expressed concern that borrowers who obtain hybrid ARMs may not understand the consequences of relying on products that produce payment shock, i.e., products in which monthly payments materially increase as the interest rate adjusts to a fully indexed basis. Beyond the risk of payment shock, borrowers may not appreciate the financial consequences of prepayment penalties, balloon payments, pricing premiums for reduced documentation loans, or the fact that they are responsible for the payment of real estate taxes and insurance if these are not escrowed.

To help institutions provide consumers with the hybrid ARM information that they need, the Agencies are publishing sample illustrations. While use of the illustrations is voluntary, they have been designed to provide information in the form recommended in the Subprime Statement. The content of the illustrations can be amended or augmented to reflect your institution’s product offerings. The formatting may also be modified to fit your institution’s needs.

Given the importance of conveying accurate and meaningful information to consumers considering hybrid ARMs, and given the challenge of doing so, the OTS encourages you to consider using the sample illustrations when you communicate with consumers about hybrid

¹ <http://www.ots.treas.gov/docs/4/480966.pdf>

ARMs. For additional information, contact Glenn Gimble, Senior Project Manager, at (202) 906-7158.

[Link to Illustrations of Consumer Information for Hybrid Adjustable Rate Mortgage Products](#)