

# NCUA LETTER TO CREDIT UNIONS

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

**DATE:** October 2006 **LETTER NO.:** 06-CU-16

**TO:** Federally Insured Credit Unions

**SUBJ:** Interagency Guidance on  
Nontraditional Mortgage Product Risk

**ENCL:** (1) Interagency Guidance on Nontraditional Mortgage  
Product Risk  
(2) Interagency Credit Risk Management for Home Equity  
Lending Addendum  
(3) Proposed Illustrations of Consumer Information on  
Nontraditional Mortgage Products

Dear Board of Directors:

The purpose of this Letter is to provide all Federally Insured Credit Unions with the final FFIEC *Interagency Guidance on Nontraditional Mortgage Product Risk* and the *Addendum* to the May 2005 *Interagency Credit Risk Management for Home Equity Lending* guidance. Both pieces of guidance were produced jointly by the Federal Financial Institutions Examination Council (FFIEC<sup>1</sup>).

The FFIEC developed this guidance to address risks associated with the growing use of mortgage products that allow borrowers to defer payment of principal and, sometimes, interest. These products, referred to variously as “nontraditional,” “alternative,” or “exotic” mortgage loans (hereinafter referred to as nontraditional mortgage loans), include “interest-only” mortgages and “payment option” adjustable-rate mortgages. These products allow borrowers to exchange lower payments during an initial period for higher payments later.

The attached guidance discusses prudent underwriting and risk management practices for nontraditional mortgage loans, as well as the need to ensure consumer understanding of loan terms and underlying product risks. In addition to these documents, the FFIEC is issuing *Proposed Illustrations of Consumer Information for Nontraditional Mortgage Products* for public comment in the Federal Register. The Agencies believe that illustrations of consumer

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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.

information may be useful to institutions as they seek to implement the consumer information recommendations of the Interagency Guidance. Credit Unions are encouraged to review and comment on the proposed illustrations which are also attached to this letter.

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

Sincerely,

JoAnn M. Johnson  
Chairman

Enclosures