

# NCUA LETTER TO CREDIT UNIONS

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

**DATE:** July 2007 **LETTER NO.:** 07-CU-09  
**TO:** Federally Insured Credit Unions  
**SUBJ:** Subprime Mortgage Lending  
**ENCL:** 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 finalized Interagency Statement on Subprime Mortgage Lending (Statement). The enclosed Statement was issued jointly by the agencies of the Federal Financial Institutions Examination Council (Agencies) to address emerging risks and lending practices associated with certain subprime adjustable rate mortgage (ARM) products that can cause payment shock.<sup>1</sup>

Credit unions should be aware that whether or not they are actively participating in subprime mortgage lending, some members may have received these types of loans at other institutions. Asset quality could be negatively impacted as some members struggle to repay considerably higher mortgage payments. In any case, federally insured credit unions should consider the sound business practices discussed in the attached Statement as they offer subprime mortgage loans or work to resolve subprime mortgage loan concerns with members.

The Statement addresses prudent risk management practices for institutions offering certain types of ARM products. Credit unions offering these types of products should observe these prudent risk management practices, which include:

- Ensuring lending practices are not predatory in nature;

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<sup>1</sup> The Agencies consist of 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.

- Assessing a borrower's capacity to repay a loan, considering the fully-indexed interest rate and assuming a fully amortizing repayment schedule; and
- Underwriting loans using stated income or reduced documentation only when there are mitigating factors offsetting the need to verify repayment ability.

Additionally, the Statement outlines prudent consumer protection standards and underscores the need for strong control systems to ensure risk management and consumer protection standards are met. The Statement also encourages credit unions to work constructively with residential mortgage borrowers through prudent workout agreements that are consistent with safe and sound lending practices when borrowers are in or approaching default. Finally, the Statement reminds institutions that the Agencies will continue to closely review risk management and consumer protection policies, practices, and procedures.

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

Sincerely,

/s/

JoAnn Johnson  
Chairman

Enclosure