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OCC Issues Guidance on Affordable Mortgage Portfolios

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) today sent an advisory letter to national banks discussing recent developments in affordable mortgage lending and providing guidance on effective techniques to manage risk in this area.

Overall, the OCC found that banks are providing affordable mortgages profitably and safely. Affordable mortgage portfolio losses have remained low. However, the OCC said it had observed that delinquency rates have risen at some banks, especially those that have recently entered this market. The OCC noted that banks with lower delinquency rates provided effective pre- and post-purchase counseling, developed rapid response programs to follow up with delinquent borrowers in affordable mortgage programs before the loans become 30 days past due, and limited the layering of risk factors.

In a 1996 OCC survey of the largest national banks and a 1997 follow-up review of 13 banks with the largest dollar volume of affordable mortgage portfolios, the OCC found that banks with more than three years experience in this area generally had a higher loan volume but lower delinquency levels in their affordable mortgage portfolios. Delinquency levels tended to be higher at some banks with less experience in this area.

While the 1996 survey found that delinquency rates in affordable mortgage portfolios averaged 4 percent, compared to a 3 percent average delinquency rate for residential real estate portfolios as a whole, losses in the affordable mortgage portfolios were either virtually nonexistent or minimal at less than 0.1 percent. The 1997 review noted that, although losses remained minimal, affordable mortgage portfolio delinquencies at some of the banks increased more than 100 basis points in the last six months of 1996.

To manage the credit risk in affordable mortgage portfolios, the OCC urged banks to consider some of these strategies:

- Providing comprehensive pre- and post-purchase counseling for borrowers.
- Ensuring that management has adequate information to evaluate loan volume, delinquency rates, losses, and profitability consistent with management's goals.
- Establishing effective rapid response programs for delinquent borrowers.
- Establishing a requirement or incentive for affordable mortgage borrowers to set up an automatic payment plan.
- Performing vintage analysis of these portfolios.

- Reviewing the need for private mortgage insurance (PMI), limits on the volume of non-PMI loans, or the use of master mortgage payment insurance on future affordable mortgage loans.
- Establishing an additional reserve to cover a missed payment, repairs, etc., after consultation with legal counsel concerning applicable consumer protection laws.
- Establishing a dedicated servicing division with personnel trained in collection techniques or enhancing the bank's contracted servicing arrangements.
- Contracting with an experienced community development firm with a good track record of reducing and preventing delinquency.

A copy of the Affordable Mortgage Portfolios advisory letter (97-7) was issued to all national banks and to OCC examiners. A copy may be obtained by writing to Comptroller of the Currency, Public Reference Room (Mail Stop 1-5), Washington, DC 20219; faxing a request to (202) 874-4448; retrieving the document from the OCC's web page at <http://www.occ.treas.gov>; ordering by phone (202) 874-5043; or visiting the OCC's Public Reference Room at 250 E street, S.W., in Washington, D.C. (9 a.m.-noon and 1-3 p.m., Monday-Friday).

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The OCC charters, regulates and supervises approximately 2,800 national banks and 66 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.□