



November 27, 2006

Attention: Public Information Room,  
Mail Stop 1-5  
Docket No. 06-12  
Office of the Comptroller of the Currency  
250 E Street, SW  
Washington, DC 20219

Docket No. OP-1267  
Jennifer J. Johnson  
Secretary, Board of Governors of the  
Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Attention: No. 2006-36  
Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street NW  
Washington, DC 20552

**Re: Proposed Interagency Illustrations for Non-Traditional Mortgage Products**

Dear Officials of Federal Bank and Thrift Agencies:

The National Community Reinvestment Coalition (NCRC), the nation's economic justice trade association of 600+ community organizations, appreciates that the Agencies have proposed illustrative disclosures to help provide a clear understanding of nontraditional mortgages and their implications for consumers.

Below are our suggestions for improving the illustrations to ensure that borrowers fully understand the nontraditional products they may be considering.

**Illustration 1:**

- Under "Additional Information" under the bullet for "Home Equity" for the third sentence, we recommend adding the following italicized lines so that the sentence reads:

"And, if you make only the minimum payments on a mortgage with a payment option feature, you maybe increasing the amount you owe (*therefore reducing your equity*) because unpaid interest is added to the loan balance."

- Under "Additional Information" under the bullet for "Prepayment Penalties", there should be clear examples of how a prepayment penalty works for a prime versus a subprime loan. For example, lenders typically have a tiered process for payment penalties with prime loans (3% in the first year, 2% in the second year, and 1% in the third year). However with subprime

loans, lenders typically require borrowers to pay out 6 months of the interest regardless of when they prepay their loan. This approach taken by subprime lenders is usually more expensive for borrowers. These differences should be thoroughly explained to borrowers.

### **Illustration 2:**

- The cell under the “Option Payment” column and the “Minimum Monthly Payment Year 1-5” row is very confusing to follow, especially as these details are only described under the footnote which many readers might not notice. The example shows the rate changing after the first month (which would indicate a change in the monthly payment), but then says that the payment stays the same through the first year.

If the monthly payment changes after the first year (despite the rate changing after the first month), then there should be another dollar amount listed next to “\$600” to reflect the minimum monthly payments for year 2-5 (the rate for these years is 6.4%). If the monthly payment changes after the first month, then the example should clearly illustrate that \$600 is the payment for the first month only and should also display the payment for the second month through the end of year 5.

In general, it is essential to list out this projected minimum monthly payment as option ARMS are a highly complicated product to understand given their constantly changing rates and the varying amounts of payments a borrower can make.

- Since illustration 2 shows monthly payments in year 8, displaying total amounts owed and loan balances through year 8 would complete the illustration and make it more understandable.

### **General Comments:**

- It should be emphasized that disclosure illustrations should be distributed at the time of the loan application process so that borrowers have sufficient time to review and fully understand the warnings and notifications being supplied to them.
- Disclosure illustrations should be printed in larger font (Times New Roman, font size 14) so that they are more prominent and more likely to be read. Illustrations could be printed double-sided to reduce paper, if needed. We also recommend using red-colored font and/or color paper.

NCRC believes that your new guidelines and proposed illustrations will help raise consumer awareness about the truth behind these risky products. However, even the best disclosure requirements are not completely sufficient. The process of purchasing a home tends to be overwhelming, chaotic, and often does not provide an ideal environment for thoroughly and clearly explaining all of the available options and their extensive impacts to borrowers. Because of this, strong consumer disclosure requirements need to be augmented with tough regulations



and enforcement. We ask the regulators to be vigilant in implementing their guidelines on nontraditional mortgages.

Thank you for the opportunity to comment on this proposal. If you have any questions about our recommendations, please contact myself or Noelle Melton, Research & Policy Analyst, at (202) 628-8866.

Sincerely,

A handwritten signature in black ink, appearing to read "John Taylor". The signature is written in a cursive style with a large initial "J" and "T".

John Taylor  
President and CEO