January 2nd, 2007

Ms. Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Interagency Request for Comment on Consolidated Reports of Condition and Income, 7100-0036

Dear Ms. Johnson:

The National Community Reinvestment Coalition (NCRC) is pleased to respond to your request for comment on the collection of additional information in call reports. NCRC is a trade association of 600 community organizations promoting equal access to credit and capital to traditionally underserved populations in the US.

We commend the agencies for proposing to collect the total amount of negative amortizing loans in quarterly call reports. In the recent interagency guidance on nontraditional mortgage risks, the banking agencies expressed high concern for products with the potential for negative amortization, a condition in which the borrower owes more than the original principal value of the loan. More risk exists in nontraditional loan products than in traditional loans, and key among these is the lack of principal amortization and potential for negative amortization. Furthermore, lenders are increasingly layering these loans with other nontraditional features, such as simultaneous second-lien mortgages ("piggyback" loans) and low-documentation mortgages, a trend that may compound risk to both the lender and borrower.

NCRC believes that this proposal will lead to increased disclosure and understanding of negative amortization loans. The proposal also will assist in ameliorating the negative consequences associated with negative amortization loans, and large concentrations of negative amortization loans in any one institution or region of the country. A lack of data has led to poor understanding of how many loans and what types of loans negatively amortize. However, the data that do exist suggest an enormous consumer protection issue exists: consumers are losing equity in their homes due to lenders' overzealous extension of nontraditional loans. In regard to payment option mortgages, a product with a high potential for negative amortization, industry observers approximate that up to 70 percent of payment-option borrowers choose the minimum payment, leading to a higher loan balance. Further, the Office of the Comptroller of the Currency reported that half of the least creditworthy option ARM borrowers have mortgage balances that exceed their original loan amount. Additionally, 29 percent of borrowers who originated loans in 2005 had no equity in their homes or owed more than their homes were worth. This is nearly three times the number of 2004 borrowers who had no equity in their homes. As interest rates rise, more option payment and ARM mortgages will face higher payments and higher rates, which subsequently increases the potential for negative amortization.

NCRC believes that this proposal is a step in the right direction, but increased regulation and transparency is needed. Nontraditional mortgages, which had historically been offered to the most affluent and sophisticated borrowers, are now offered to a much broader market, including borrowers who need to stretch their incomes to afford the higher prices of homes. A Federal Reserve survey of ARM borrowers provides further indication that many borrowers are unfamiliar with the basic terms of their mortgage. For example, 35 percent of them did not know the maximum increase their interest rate can raise at one time. Further, 44 percent were unsure of the maximum rate they could be charged, and 17 percent did not know the frequency that their rate could change. This shows that many consumers are not even aware they have a product with a high potential for negative amortization. While this proposal is in the proper spirit, we believe further regulation is needed as well as rigorous enforcement of the recent guidance on nontraditional mortgages.

The policies of US financial institution regulators should not allow an environment where its citizens' wealth does not grow, and in fact decreases. To that end, NCRC will continue to advocate for a national anti-predatory lending standard that applies to all lenders. Among the provisions in such a standard, the repayment analysis done during underwriting ought to be based on the initial loan plus any balance increase that may accrue from the negative amortization. Further, the higher a loan's credit risk, the more important it is to verify the borrower's income, assets, and outstanding liabilities. Lenders ought to assess a borrower's payment ability during the full life of the loan, not just the introductory or "teaser rate" period. Loans to individuals who do not demonstrate the capacity to repay ought to be considered unsafe and unsound.

Thank you for your consideration on this matter. Please do not hesitate to contact myself or NCRC Research Analyst Tim Westrich at 202-628-8866 for more information.

Sincerely,

John Taylor
President and CEO