OHIO CREDIT
UNION LEAGUE

May 7, 2007

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Ohio Credit Union League Comments on Proposed Statement on Subprime Mortgage Lending

Dear Ms. Rupp:

The Ohio Credit Union League ("League"), the trade association for credit unions in the State of Ohio that advocates on behalf of its more than 400 credit unions and 2.7 million members appreciates the opportunity to comment on the federal financial institutions regulators, including NCUA, Statement of Subprime Mortgage Lending.

The federal financial institution regulators, including NCUA, have issued this statement to provide guidance when assessing a borrower's ability to repay a subprime mortgage loan. While subprime loans are not new to the lending industry, the growth of securitization of subprime loans has increased the amount of credit available to borrowers and have increased investor interest. As a result of these nontraditional mortgages subprime loans more than doubled as a share of all mortgage loans from 7-9 % in 2003 to 20% in 2005. During that same time period, home mortgage foreclosures increased as well, particularly in subprime mortgages.

Ohio, in particular, has experienced the highest foreclosure rate of all states in 2006 based on the Mortgage Bankers Association (MBA) National Delinquent Survey, for the Fourth Quarter 2006. Ohio's foreclosure rate is 3.38% versus the national rate of 1.19%. In fact, subprime loans make up the highest percent of foreclosures in Ohio at 63% of all foreclosures. The most common type of an Ohio subprime mortgage is a "2/28" or "3/27" loan. These loans will have low "teaser" rates for the first two to three years that are fixed and then reset sometimes as often as every six months, thus increasing the monthly payment dramatically. In 2007 and 2008, approximately $14 billion of these 2/28 or 3/27 subprime loans will reset in Ohio impacting 150,000 to 200,000 mortgages which will further fuel foreclosures. As this foreclosure crisis continues to loom creditors, consumers, and borrowers are faced with the immediate need of addressing the rising foreclosure rates and the ongoing needs of responsible lending and borrowing. In the midst of this issue of rising foreclosures, the federal financial regulators ("Agencies") at this time have chosen to develop a Proposed statement to address emerging issues and questions relating to certain Subprime Mortgage Lending Practices as set forth below.

The Agencies developed this Statement to address emerging issues and questions relating to certain subprime mortgage lending practices. The Agencies are concerned that subprime borrowers may not fully understand the risks and consequences of obtaining certain adjustable-rate mortgage (ARM) products. In particular, the Agencies are concerned with ARM products marketed to subprime borrowers with the following characteristics:

- Offering low initial payments based on a fixed introductory or "teaser" rate that expires after a short initial period then adjusts to a variable index rate plus a margin for the remaining term of the loan;

- Approving borrowers without considering appropriate documentation of their income;

- Setting very high or no limits on how much the payment amount or the interest rate may increase ("payment or rate caps") at reset periods, potentially causing a substantial increase in the monthly payment amount "payment shock";

- Containing product features likely to result in frequent refinancing to maintain an affordable monthly payment;

- Including substantial prepayment penalties and/or prepayment penalties that extend beyond the initial interest rate adjustment period; and/or

- Providing borrowers with inadequate information relative to product features, material loan terms and product risks, prepayment penalties, and the borrower's obligations for property taxes and insurance.

The consequences to subprime borrowers could include; being unable to afford the monthly payments after the initial rate adjustment because of payment shock; experiencing difficulty in paying real estate taxes and homeowners insurance that were not escrowed; incurring expensive refinancing fees frequently due to closing costs and prepayment penalties, especially if the prepayment penalty period extends beyond the rate adjustment date; and losing their home. The Agencies also are concerned about the elevated credit risk that is inherent in these products.

In reviewing the current proposal by the Agencies, the Agencies have asked for public comment on the following specific questions which the League will address below:

1. The Proposed qualification standards are likely to result in fewer borrowers qualifying for the type of subprime loans addressed in this Statement, with no guarantee that such borrowers will qualify for alternative loans in the same amount. Do such loans always present inappropriate risks to lenders or borrowers that should be discouraged, or alternatively, when and under what circumstances are they appropriate?

The size and complexity of the subprime market has greatly increased over the last five to ten years. While these different types of loans have made credit available to more people the risk involved and the consequences of being unable to meet the loan payment requirements have resulted, many times, if the loss of one's home. However, not all subprime loans are predatory or misleading or are made to the most vulnerable or at risk borrowers. In fact, more subprime loans were originated to middle and upper income borrowers in Ohio in 2005 than to moderate and low income borrowers. Of these subprime loans, 50% were to middle and upper income households.

However, experience has shown while fewer borrowers qualify for these more restrictive subprime loans but will most likely not qualify for alternate loans in the same amount.

Furthermore, experience has shown that with the growth of securitization in the subprime mortgage market, neither the borrower, nor the lender, nor the investor benefited from any perceived minimization of risk.

Many states today, including Ohio have taken it upon themselves to address mortgage lending practices to provide more safeguards to borrowers as well as minimize risk to the lenders. While those who can qualify for credit do benefit from the added protections, it also has the effect of making less credit available.

2. *Will the proposed Statement unduly restrict the ability of existing subprime borrowers to refinance their loans and avoid payment shock? The Agencies also are specifically interested in the availability of mortgage products that would not present the risk of payment shock.*

   The ability of existing subprime borrowers to refinance their loan and avoid payment shock is a complex issue. Whether the proposed statement may unduly restrict the ability of existing subprime borrowers to refinance their loans, the effect most likely would be minimal in that many of these subprime borrowers would not qualify with the mortgage products currently offered by the regulated financial depositories.

   Many borrowers with subprime loans, particularly 2/28 and all other ARM's cannot refinance because their property is not worth what is owed. Others have credit ratings that prevent them from qualifying for traditional mortgages. And others have used any equity in their homes for other endeavors. This leaves them no equity and no ability to pay to refinance.

Furthermore, with the practice of selling securitized pools of subprime mortgages, the complexities of the lender, borrower, servicer, issuer, and investor make it more difficult to structure refinancing without negatively affecting the parties involved.

3. *Should the principles of this proposed Statement be applied beyond the subprime ARM market?*

Many of those principals are appropriate in all circumstances and can be applied beyond the subprime market. Mortgage lending should be done in such a manner to take into account the needs and expectations of the borrower, to make sure that the individual is properly made aware of the terms and conditions, and balancing that with the risk to the lender. While this may not cover all aspects of fair lending principles it will provide the groundwork for the parties.

4. We seek comment on the practice of institutions that limit prepayment penalties to the initial fixed rate period. Additionally, we seek comment on how this practice, if adopted, would assist consumers and impact institutions, by providing borrowers with a timely opportunity to determine appropriate actions relating to their mortgages. We also seek comment on whether an institution's limiting of the expiration of prepayment penalties such that they occur within the final 90 days of the fixed rate period is a practice that would help meet borrower needs.

Prepayment penalties should not be imposed on covered loans and especially for paying off loans early. The use of any prepayment penalty should reflect a benefit that the borrower may receive for not paying off the loan in a certain length of time and not to punish or discourage the borrower from refinancing for his/her benefit.

In addition, there is a great need in the community to find and develop ways and instruments to assist those who are facing foreclosure today. With the lending restrictions being further tightened in the market place on home mortgages as well as on the secondary market many homeowners will be looking at more foreclosures.

Addressing many of the current practices in the subprime mortgage market and other affordable mortgages will provide relief in the future. However, one must look also at the immediate needs of those facing, in the short term, the prospect of losing their homes.

To address this issue three areas should be considered.

First, the Agencies, private lenders, Fannie Mae, Freddie Mac, the Federal Home Loan Bank and FHA should work together to help provide the refinancing product to those borrowers that are eligible to save their homes.

Second, the Agencies, the state, and others should work to coordinate within the mortgage industry opportunities to provide consumers the ability to restructure their mortgage.

Third, there should be a concerted effort to promote outreach, remediation, and housing counseling to those homeowners to help them deal with the issue of possible home foreclosure. This must be a long term commitment in that the foreclosures will continue into the future.

Finally, home ownership has always been a dream for all Americans and it is one that should not be perceived as unattainable.

The Ohio Credit Union League appreciates the opportunity to comment on the Agencies proposed statement on Subprime Mortgage Lending and would be willing to provide additional input if so requested.

If you have any questions, please feel free to contact me at (800) 486-2917.

Sincerely,

John F. Kozlowski

John F. Kozlowski
General Counsel