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HEADLINE: Subprime Guidance Will Stay the Same

DATELINE: WASHINGTON

BODY:

Federal banking regulators are not backing down or revising their subprime lending guidance, despite industry complaints that it is confusing and should be withdrawn.

"We remain confident that the subprime guidance will not have an adverse effect on the financial services industry, consumers' access to credit or the cost of the borrowings," the regulators say in a letter to four trade groups.

American Bankers Association, America's Community Bankers, Financial Services Roundtable and Consumer Bankers Association have formerly requested that the regulators withdraw the guidance.

The trade groups claim the subprime lending guidance (issued to examiners in January) is overly broad and examiners could end up classifying mortgage loans to low-income and first-time homebuyers as subprime loans and subject those loans to higher capital requirements.

But the April 20 letter by the regulators insists that the guidance is directed at institutions that specifically target subprime borrowers. And it does not apply to the "normal community lending process, or making loans to subprime borrowers on an exception" basis to a prime lending program.

In fact, the federal regulators claim that the guidance "does not represent a change in policy; it reinforces the existing process and it makes it more consistent among the agencies."

Consumer Bankers Association senior counsel Steve Zeisel noted that there are differences between the April 20 letter and the examiner guidance issued in January.

"It would make a whole lot more sense to pull the guidance and reword it. But we are waiting to see what our members say," Mr. Zeisel said.

America's Community Bankers regulatory director Charlotte Bahin expressed disappointment in the regulator's response.

She also noted concern that the regulators' letter does not mention a question and answer supplement to the guidance.

A few weeks ago, the regulators were promising to issue a Q & A, which ACB

believes is necessary, Ms. Bahin said.

Lenders are particularly concerned about the criteria the examiners are supposed to use in looking for subprime loans.

Under the guidance, loans to borrowers with one or more of the following characteristics are considered subprime: two or more 30-day delinquencies in the last 12 months; one or more 60-day delinquencies in the last 24 months; foreclosure in the prior 24 months or bankruptcy in last five years; FICO scores of 660 or below and debt-to-income ratios of 50% or greater.

Lenders were hoping that the regulators would at least lower the FICO to 620, but no such luck.

The regulators point out that Standard & Poor's rates loans with FICO scores below 660 as subprime and Freddie Mac considers FICO scores below 620 as a strong indication that the borrower's credit reputation is not acceptable.

"As indicated by these examples, the characteristics listed in the guidance are well recognized in the investment and lending industries," the regulators' letter says.

Top supervisory officials of the Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corp. and Office of Thrift Supervision signed the letter.