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STATE OF LOUISIANA
OFFICE OF FINANCIAL INSTITUTIONS
BATON ROUGE, LOUISIANA



John Ducrest, CPA
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Louisiana Office of Financial Institutions Adopts Regulatory Guidance on Nontraditional Mortgage Products

Commissioner John Ducrest, CPA, today announces the issuance of a set of regulatory “best practices” covering the marketing, loan terms and underwriting standards for nontraditional mortgages by state-licensed entities.

The guidance, which may be accessed from the Office website (www.ofi.louisiana.gov), was developed by the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) and applies to state-licensed mortgage brokers and companies. The guidance is intended to promote consistent regulation in the mortgage market and to clarify how residential mortgage providers can offer nontraditional mortgage products in a way that clearly discloses the risks borrowers may assume.

These guidelines are designed to level the playing field in the mortgage market in order to protect consumers from taking on high-risk mortgages without having a full understanding of the terms of such loans.

Nontraditional mortgage products include “interest-only” mortgages that allow borrowers to pay only the interest for the first few years of the loan and “payment option” adjustable-rate mortgages (ARMs) that include flexible payment options for borrowers which may provide for a period of negative amortization which actually increases the outstanding principal balance.

The best practices outlined by the guidance require:

- Loan terms and underwriting standards to be consistent with prudent lending standards including consideration of the borrower’s repayment capacity to the extent to which it may be affected by an increase in monthly payments as a result of interest rate increases or expiration of the flexible payment period; and
- Mortgage brokers and lenders ensure that consumers have sufficient information to clearly understand loan terms and associated risks prior to making a product choice

The CSBS/AARMR guidance parallels final guidance released on September 29, 2006, by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration.

The interagency guidance, however, applies only to insured financial institutions and their affiliates. To promote consistency, the CSBS/AARMR guidance substantially mirrors the interagency guidance, except for the deletion of sections inapplicable to non-depository institutions.

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