



ARIZONA DEPARTMENT OF FINANCIAL INSTITUTIONS

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REGULATORY ALERT

MB/BK-07-01

DATE: February 22, 2007

TO: Department of Financial Institutions' ("DFI") Mortgage Licensees

FROM: Felecia Rotellini, Superintendent

RE: **Adoption of Guidelines Relating to Nontraditional Mortgage Products**

On October 4, 2006, 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 published final guidance relative to nontraditional mortgage product¹ risks in the *Federal Register* (Volume 71, Number 192, Page 58609-58618). The interagency guidance applies to all banks and their subsidiaries, bank holding companies and their nonbank subsidiaries, savings associations and their subsidiaries, savings and loan holding companies and their subsidiaries, and credit unions.

Recognizing that this guidance does not cover the marketing of nontraditional mortgages by non-depository state licensed entities, [regulatory guidelines](#) were developed by the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) for state licensed mortgage entities. DFI adopted these parallel guidelines because they intend 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. You are strongly encouraged to consider this guidance as a "best practice" and as an additional tool to assist you in maintaining compliance with Arizona Law, A.R.S. §§ 6-909 and 6-947.

For questions regarding this Regulatory Alert or the guidance, please contact Robert D. Charlton, Assistant Superintendent, or Eric M. Boldan, Special Assistant to the Superintendent, at (602) 255-4421.

¹ Mortgage products that allow borrowers to defer payment of principal and, sometimes, interest. These products, referred to variously as "nontraditional," "alternative," or "exotic" mortgage loans include, but are not limited to, "interest-only" mortgages and "payment option" adjustable-rate mortgages. These products allow borrowers to exchange lower payments during an initial period for higher payments during a later amortization period.