

MEMORANDUM

To: All State-chartered Banks and Licensees under the Alabama Consumer Credit Act and Mortgage Brokers Licensing Act

From: John D. Harrison, Superintendent of Banks

Re: SBD Opinion 2007-2 – Guidance on Nontraditional Mortgage Product Risks

Date: August 27, 2007

The State Banking Department announces the adoption of a set of regulatory guidelines covering the marketing of nontraditional mortgages by state-licensed entities.

The guidance 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.

The guidelines will 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.

The 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. All Alabama state-chartered banks are subject to the interagency guidance released on September 29, 2006.