



Memorandum

TO: Federal Financial Analytics Clients
FROM: Karen Shaw Petrou
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Hey – this is way cool. You probably thought you were stuck with boring, conventional, thirty-year, fixed-rate mortgages after reading all those speeches from bank regulators. Never fear. We know where you can get a \$3 million no-doc, interest-only mortgage on your house even if you're so squeezed that it's up for sale. And, get this – it's not from one of those mortgage brokers bank regulators love to blame. It's from a national bank's subsidiary, so you know they're good for it.

We like reading our mail because it's a real-world test for policy pronouncements from industry and regulators alike. A while ago, we noted a letter we got trying to squeeze some dubious new fees out of us from a huge credit-card issuer. A reporter picked it up and, much to our surprise, the bank denied they would ever have done so heinous a thing as to send the letter we got. Then, despite this disavowal, we got it three more times.

But, on to this mortgage offer, which to us flies in the face of just about everything we've read from all the regulators. And, we mean everything – the mortgage is hard to figure under the FRB's new rules – although we can guess a couple of the exemptions through which the bank hopes it can squeeze this product. Even if the mortgage is in technical compliance with the rules, though, it's worlds away from recent pronouncements about the new world of mortgages regulators say they want. See, for example, the comments from Comptroller Dugan about what global regulatory standards for mortgages should look like – the mortgage offer we got from one of his charges is, shall we say, different.

As noted, the loan is a \$3 million offer – no mention of loan-to-value ratio or any other constraints in our happy postcard. Even better, it's a cash-out offer, leading us to presume we can bet the ranch on it. And, in fact, it could be our ranch or any other second home or investment property – the offer makes clear that the property need not be our primary residence to get these good terms. Investment properties are exempt from the Fed's rules and thus might be one reason the bank thinks it can make this offer, but

principal residences are clearly covered by the rules and this mortgage is good for them too.

As mentioned, the loan is also no-doc – that is, the offer promises no asset verification. It's an I/O loan, which means no equity protection for borrower and/or bank and, since one can get the mortgage even on a property recently listed for sale, it's presumably aimed at those distressed enough to need to sell as well as those who just might be in the mood.

Clearly, our postcard promises a not-so-dearly-departed high risk mortgage loan. These were, we had hoped, a thing of the past. But, despite all the billions of dollars lost to date, risk for borrowers and banks alike remains untrammelled at least in corners of the market where imaginative bankers and complacent regulators are still sadly to be found.