

Federal Reserve Bank of San Francisco  
101 Market Street, San Francisco, California 94105

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**BANKING SUPERVISION AND REGULATION:  
CONSUMER INFORMATION ON  
NONTRADITIONAL MORTGAGES**

To State Member Banks, Bank  
Holding Companies, U.S. Branches  
and Agencies of Foreign Banks,  
and Others Concerned,  
in the Twelfth Federal Reserve District

**Agencies Provide Consumer Information on Nontraditional Mortgage Loans**

The regulatory agencies announced the publication of a new resource that can help consumers make more informed choices when considering nontraditional mortgage loans.

The publication, *Interest-Only Mortgage Payments and Payment-Option ARMs – Are They for You*, features a glossary of lending terms, a mortgage shopping worksheet, and a list of additional information sources. This information can help consumers decide if an interest-only mortgage (I-O mortgage), or an adjustable-rate mortgage (ARM) with the option to make a minimum payment (payment-option ARM) is right for them.

Lenders have a variety of names for these loans, but with I-O mortgages and payment-option ARMs, consumers could face "payment shock," where monthly payments may double or even triple, following the interest-only period or when payments adjust. In addition, consumers with payment-option ARMs could face negative amortization, a situation in which the monthly payments do not cover all of the interest owed for that month. The unpaid interest is added to the mortgage balance so that the amount owed on the mortgage exceeds the amount originally borrowed.

The publication stresses the importance of understanding key mortgage loan terms, warns of the risks consumers may face, and urges borrowers to be realistic about whether they can handle future payment increases. If consumers are not comfortable with these risks, the publication suggests that they ask about other mortgage products.

The interagency information is available at the following website:

[http://www.federalreserve.gov/pubs/mortgage\\_interestonly/default.htm](http://www.federalreserve.gov/pubs/mortgage_interestonly/default.htm)

Single copies of the brochure are also available free of charge from the Federal Reserve Board:

The Federal Reserve Board  
Publications, Mail Stop 127  
20<sup>th</sup> and C Streets, N.W.  
Washington, D.C. 20551  
(202) 452-3245

**Additional Information**

All circulars and documents are available on the internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact our Banking Supervision and Regulation Department at (415) 974-3028

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