

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

May 17, 2007

**BANKING SUPERVISION AND REGULATION:
REQUEST FOR COMMENT**

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

Federal Regulators Encourage Institutions to Work with Mortgage Borrowers Who Are Unable to Make Their Payments

The federal bank, thrift and credit union regulatory agencies are encouraging financial institutions to work with homeowners who are unable to make mortgage payments. Prudent workout arrangements that are consistent with safe and sound lending practices are generally in the long-term best interest of both the financial institution and the borrower. Institutions will not face regulatory penalties if they pursue reasonable workout arrangements with borrowers.

Borrowers who are unable to make their mortgage payments should contact their lender as soon as possible to discuss available options. Examples of constructive workout arrangements include modifying loan terms, and/or moving borrowers from variable-rate loans to fixed-rate loans. Bank and thrift programs that transition low- or moderate-income homeowners from higher-cost loans to lower-cost loans may also receive favorable consideration under the Community Reinvestment Act (CRA), provided the loans are made in a safe and sound manner. Federal credit unions are exempt from CRA requirements.

The agencies want to remind their institutions that existing regulatory guidance and accounting standards do not require immediate foreclosure on homes when borrowers fall behind on payments. In addition, under the Homeownership Counseling Act, institutions are required to inform delinquent borrowers about the availability of homeownership counseling. Institutions should also consider working with reputable consumer-based organizations to help financially stressed borrowers avoid predatory foreclosure rescue scams.

The agencies' statement is attached.

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>.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Attachment: [Statement on Working with Mortgage Borrowers](#)