



CSBS and AARMR Industry Letter: Mortgage Payment Increase

The Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) are issuing this joint statement to encourage residential mortgage servicers and providers to contact their customers who have mortgage loans that are scheduled to recast this year. Consumers with mortgage loans that will recast this year could have considerable increases in their monthly loan payments, resulting in payment shock or possible default. This consumer outreach can lessen the shock of the loan recast, and decrease the possibility of delinquent payments and defaults.

The current challenges facing the residential mortgage industry are cause for serious concern that many consumers could face problems making their monthly loan payment. This concern is especially heightened for consumers that currently have a mortgage loan that is set to adjust resulting a substantial increase in monthly payments in the coming year. (This payment adjustment is commonly referred to as “recast” or “reset.”) Nontraditional mortgage loans and loans to subprime borrowers frequently feature a recast with a significant payment increase.

CSBS and AARMR are concerned that many customers may not fully understand the characteristics of these products. In addition, many borrowers may have difficulty affording the higher payments after a recast. With an estimated one million mortgage loans scheduled to recast this year, it is imperative that servicers and providers reach out to these consumers to alert them to the potential effects of the recast.

CSBS and AARMR are aware that some mortgage companies that service mortgage loans have taken steps to contact these customers to remind them that their loan payments are scheduled to increase and to address any concerns that may arise. If a customer does express concern about their adjusted monthly payment, these same companies are encouraged to take steps to address the problem prior to the recast by finding appropriate solutions, which may include refinancing the consumer into a more appropriate loan.

CSBS and AARMR endorse these types of pre-cast consumer contacts that are designed to prevent mortgage foreclosure proceedings. Initiating these types of contacts prior to a loan recasting will not only help consumers but also benefit the mortgage company by limiting the time and expense involved in collection activities and foreclosure proceedings.

Message to Servicers:

Therefore, CSBS and AARMR encourage mortgage servicers to contact those consumers whose loans will recast and notify them of this fact well in advance. The servicer should provide information on when the recast will occur and how much the monthly payment will adjust. In addition, should the loans go into default, servicers should consider a

workout arrangement to prevent foreclosure. For example, a servicer may consider modifying loan terms or waiving prepayment penalties.

Message to Providers:

Additionally, residential mortgage providers, including mortgage brokers and mortgage lenders, should take the opportunity to assist consumers in need. Such assistance not only helps the individual borrowers, but also serves to rehabilitate the mortgage market at large. Caution should be exercised by mortgage providers when dealing with consumers that are currently in a mortgage loan that is about to recast. The bargaining position of the consumer in this situation may be reduced, especially borrowers that find themselves unable to service their monthly payments. Extra care must be taken by mortgage providers to deal with these customers ethically and professionally in order to avoid consumer harm, including what is known as “flipping,” “packing” fees or putting a consumer into a mortgage loan that will cause more financial harm to the consumer. CSBS and AARMR believe that this kind of professional, ethical assistance is also good for business, since a financially healthy consumer is a future customer.

In addition to issuing this Industry Letter, CSBS and AARMR have issued a Consumer Alert to mortgage consumers, encouraging them to contact their servicer and a trusted consumer advocacy group for financial counseling and guidance before their residential mortgage loans recast.