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Comments:
Nontraditional Mortgage Products - Docket No. OP-1246 Compass Bank appreciates the opportunity to provide comments on the proposed guidance regarding nontraditional mortgage products. Compass Bank shares the Agencies' concerns associated with non-traditional products that provide lower principal amortization and/or products that have potential for negative amortization such as interest-only and payment option adjustable rate mortgages. At Compass Bank, we take a conservative approach regarding mortgage lending. Compass does not offer any payment option ARM, sub-prime, or below market introductory rate type products in its' portfolio. In addition, Compass does not underwrite loans to borrowers who will be reliant on the sale or refinancing of the property when the loan amortization period begins. Compass does offer interest-only loans, stated income loans, no ratio loans, and non-owner occupied property loans, but with more stringent guidelines than traditional mortgage products. With that said, the vast majority of the portfolio consists of fixed rate mortgages and conventional ARM mortgages that include both treasury based and LIBOR based products. Interest-Only Loans Regarding the underwriting of interest-only loans, Compass has established stringent guidelines to evaluate the customer's capacity to repay the loan and reduce our risk of loss in the future. We believe these guidelines provide for prudent lending practices and consider the borrower's capacity to repay. These guidelines include but are not limited to the following: ¨ Establishing a qualifying rate of 7% or note rate + 3%, whichever is greater ¨ Requiring larger cash reserves as the loan amount and LTV increases ¨ Establishing conservative debt to income ratios ¨ Increased minimum FICO score requirements as loan amounts increases Alternative Documentation Loans (Stated Income & No Ratio) Alternative documentation loans include stated income and no ratio loans. Since both of these programs are considered higher risk products, the underwriting of these products are strictly limited to "Key Compass Customers" or "Potential Key Compass Customers". The stated income program is designed for borrowers with excellent credit and established employment in the same business (two-year minimum). This borrower's income must make sense and no second or part-time employment is allowed. Some of the requirements of this program include but are not limited to the following: ¨ Verbal verification of employment for salaried borrower ¨ Reserve Requirements: Borrowers must have verified minimum

assets equal to 12 months stated monthly income after closing, excluding proceeds from cash-out refinance (if applicable) ¨ Minimum credit score is 700 ¨ Establishing a qualifying rate of 7% or note rate + 3%, whichever is greater ¨ Requiring more stringent LTV ratios on second homes versus primary residences ¨ Establishing maximum cash out parameters based on loan amount, occupancy status (primary residence versus second home), and LTV ratios The no ratio program is offered to those borrowers with a strong asset base, a steady source of income, and established employment in the same business (minimum two years). Some of the requirements of this program include but are not limited to the following: ¨ Verbal verification of employment for salaried borrower ¨ Perfect credit with no late payments within past 24 months ¨ Reserve Requirements: Borrowers must have verified minimum 18 months cash reserves after closing ¨ Minimum credit score is 700 ¨ Establishing a qualifying rate of 7% or note rate + 3%, whichever is greater ¨ Requiring more stringent LTV ratios on second homes versus primary residences ¨ Establishing maximum cash out parameters based on loan amount, occupancy status (primary residence versus second home), and LTV ratios Non-Owner Occupied Loans (Investment Loans) As Alternative document loans carry a higher risk, so do non-owner occupied loans. Our approach to these loans remains very conservative in that the maximum LTV for this product is 70%. In addition, particular attention is paid to the borrower's employment history, reliability and source of all income, strength of credit history and FICO score, and the amount of cash reserves. Cash reserves are very important with regards to these types of loans given the borrower may be paying mortgage payments on multiple properties. There may also be times when the property is vacant and the borrower is not receiving income on that property. In conjunction with conservative underwriting guidelines regarding non-traditional mortgage products, Compass believes that establishing the appropriate tracking and reporting measures to monitor the performance of these loans is important. Specifically, the portfolio originations are tracked monthly by loan product (fixed, 1/1 ARM, 3/1 ARM, 5/1 ARM …), interest only loans versus non-interest only loans, FICO score, and LTV. Though this is not a comprehensive list of all reports, it demonstrates an example of the type of reporting Compass is using to manage and maintain this portfolio. In addition to this reporting, Compass tracks (on a quarterly basis) the number of ARM loans that have repriced. This helps to quantify and monitor those portfolio loan accounts that have increased in their monthly payment amount. Compass is also implementing stress testing that compares the DTI at origination to the current DTI. This will illustrate on a loan-by-loan basis how many accounts have increased their debt levels and by how much. Compass will also be implementing the practice of rescoring accounts to monitor performance from that perspective as well. Both processes will help to provide information regarding the current risk level of the portfolio compared to prior reviews and from origination. This stress testing and rescore analysis will be conducted on either an annual or semi-annual basis going forward. Controls have been established regarding quality control, compliance, and audit procedures for the portfolio. Exceptions are tracked and noted on a monthly basis. These exceptions are also reviewed and audited by our internal audit group to ensure the validity of the exception and that the number of exceptions is within an acceptable level. Appropriate allowance for loans and leases (ALLL) have been established for this portfolio. Losses are continually monitored and the appropriate changes are made to reserves as needed. Finally, our Mortgage division works closely with our Legal department to ensure that all products and services comply with all Truth in Lending Act, Regulation Z, Federal Trade Commission, RESPA, and state laws and regulations. Specific request for comment was made on three issues on page 12 of the document. Responses are as follows: 1. Compass does not agree that capacity to pay on these types of loans should be based on minimum payment. This is reflected in our underwriting guidelines which states that the borrowers' capacity to pay is based off the maximum of 7% or note rate + 3%. Other variables are also used (stated previously on pages 1 and 2) to limit the risk to Compass and better quantify the borrowers' means to repay the loan. However, it should also be stated that assuming the maximum payment in the calculation is not the solution either. The potential risk here is that you could deny qualified candidates based on the assumption of what future events may or may not occur. If practices were to change so that the borrowers' repayment capacity should include an evaluation of their ability to repay the debt by final maturity at the fully indexed rate, this could have an adverse affect based on several factors. First, models are being used in our credit card portfolio that project future income. Despite the sophistication of these models, they have not proven to be a reliable source for predicting what future income will actually be. The degree of variation can be wide from customer to customer. Second, using a model that assumes the worst scenario may prove to be imprudent. Is it fair to deny a customer a loan based on the worst possible scenario that could occur (or not occur) in the future? Compass realizes the added risks associated with these loans, but doesn't assume the worst case will occur. As stated previously, we do factor an additional percentage to the note rate when calculating the customer's capacity to repay. We believe this to be a very prudent lending practice. Third, there is the possibility that industry require the borrower's to provide updated information on an annual basis (or some other defined time frame) to ensure the borrower can continue to make the payment. However, this would add a whole new process of tracking for the financial institutions. This would require additional staffing, enhanced changes to servicing systems, and would prove to be a costly endeavor. In addition, if you do determine the borrower may not be able to continue to pay, what steps could you take? If the customer has never missed a payment or been late, should actions be taken? If so, what actions? Again, this does appear to be a prudent answer. Finally, defining and creating a model that will encompass all borrowers is going to be extremely difficult. Given the complexities involved with all the parameters to be analyzed, attempting to project what one's income growth could be in the future would be challenging. For example, income growth rates could vary significantly by socio-economic status, professions, age, and geography. These are just a few of the numerous variables to be considered when trying to predict future income. Defining a consistent basis that would address these numerous variables to be considered would be extremely difficult. 2. Compass has outlined on pages 1 and 2 what types of customers these products are designed for and summarized the criteria used in underwriting these loans. Based on our risk tolerance for these products, these are the only forms of reduced documentation we deem appropriate at this time to underwrite non-traditional mortgages for our portfolio. Therefore, we offer no other forms of reduced documentation to be utilized for non-traditional mortgages. In addition, since we are not in the business of underwriting subprime mortgages, we again offer no comment as to what forms of reduced documentation would be appropriate. 3. As stated previously from question #1, the consideration of future income in qualification standards could prove to be a very difficult task. Given the complexities involved with all the parameters to be analyzed, attempting to project what one's income growth could be in the future would be challenging. For example, income growth rates could vary significantly by socio-economic status, professions, age, and geography. These are just a few of the numerous variables to be considered when trying to predict future income. Defining a consistent basis that would address these numerous variables to be considered would be extremely difficult. Compass' solution to help manage some of this potential risk of "payment shock" is to qualify the customer at the current note rate plus an additional percentage. In our case for interest-only loans and determining the qualifying rate, we use a minimum of 7% or note rate plus 3%, whichever is greater. So if the current note equals 6%, the applicant would be qualified under a 9% rate and that payment amount (based on 9%) would be used in their DTI calculation. Certainly this process doesn't eliminate all "payment shock" risk, but it certainly addresses it and helps to account for some of the future risk. To summarize, Compass agrees there are added risks to both the consumer and lending institution where nontraditional mortgages are involved. We believe it is vitally important to educate the borrower and ensure they understand the pros and cons involved with these types of loans. They need to understand the implication to their monthly payment if interest rates were to increase. They need to understand when the payment may change, how often, as well as how much the payment could change. We support the efforts of the agencies to protect the consumers and ensure they are aware of the inherent risks associated with these nontraditional mortgage products. As for the underwriting of these loans, we believe it is the lenders' responsibility to establish prudent underwriting standards and guidelines that will effectively determine the borrower's ability to repay the loan. We believe a conservative approach should be taken when underwriting these types of loans and that the appropriate reporting be implemented to track the repricing as well as the performance of these loans. Compass Bank thanks you for the opportunity to provide comments regarding nontraditional mortgages.