



State of Rhode Island and Providence Plantations
DEPARTMENT OF BUSINESS REGULATION
Division of Banking & Securities
233 Richmond Street, Suite 231
Providence, RI 02903-04231

Division of Banking
Tel: (401) 222-2405
Fax: (401) 222-5628
TDD: 711
www.dbr.ri.gov

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To: Licensed Lender, Loan Brokers, and Exempt Mortgage Lenders and Exempt Mortgage Brokers

Re: Regulatory Guidance on Nontraditional Mortgage Products

On October 4, 2006, the federal financial regulators published final guidance on nontraditional mortgage product risks in the *Federal Register* (Volume 71, Number 192, Page 58609-58618). The federal interagency guidance applies only to insured financial institutions and their affiliates. The majority of mortgage originations, however, are made by state regulated mortgage brokers and companies.

Therefore, the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) have developed parallel guidance that applies to state regulated mortgage brokers and companies. The CSBS/AARMR guidance focuses on consumer protection, proper underwriting standards, and risk management practices.

The Division of Banking (“Division”) has adopted through Banking Bulletin 2007-5 the CSBS/AARMR guidance as an additional tool in determining whether a lender or loan broker’s practices are in compliance with Rhode Island Laws¹ and related Regulations. The guidance is intended to promote consistent regulation in the mortgage lending industry and to clarify how residential mortgage providers can offer nontraditional mortgage products in a way that clearly discloses the risks borrowers may assume. Licensees can expect the Division’s examiners to employ the guidance when reviewing a lender or loan broker’s loans for compliance with state law and regulation.

These guidelines are designed to level the playing field in the mortgage lending market in order to protect consumers from taking on high-risk mortgages without having a full understanding of the terms of such loans. You are strongly encouraged to consider the guidance as a minimum standard or benchmark to ensure that your practices are in compliance with Rhode Island’s Laws and related Regulations when soliciting, originating or making nontraditional mortgage products.

For questions on this advisory or the guidance, please contact Sara Paterson Cabral, Assistant Supervisor of Examinations at (401) 222-2405.

Dennis F. Zirolì, CFE
Associate Director & Superintendent of Banking

¹ Including without limitation R. I. Gen. Laws §§ 19-9-1 *et seq.*, 19-14-21, 19-14.1-4, 19-14.1-5, 34-23-1 *et seq.*, 34-25.2-1 *et seq.*, and 34-26-1 *et seq.*