

**WAC 208-512-430 Subprime mortgage lending—Is there a list of subjects that banks, savings banks and savings associations must include in their policies and procedures?** Yes, the guidance requires all financial institutions, including banks, savings banks and savings associations, to focus on the following subjects and apply the relevant ones to their existing policies and procedures:

- (1) Help borrowers understand ARM risks, including:
  - (a) Low initial payment;
  - (b) High or unlimited reset rate caps;
  - (c) Low or no documentation loans;
  - (d) Problems of frequent refinancing;
  - (e) Risk layering;
  - (f) Simultaneous second lien loans;
  - (g) Prepayment penalties;
  - (h) FDIC or FRB prohibited practices (banks, savings banks and savings associations).
- (2) Understand portfolio and risk management practices, including:
  - (a) Relationship between subprime lending and predatory lending;
  - (b) Risks of loans based on foreclosed or liquidation value;
  - (c) Problem of loan "flipping";
  - (d) Fraud detection;
  - (e) Use of qualifying standards;
  - (f) Maintenance of appropriate capital levels;
  - (g) Use of appropriate allowance for loan and lease loss levels;
  - (h) Risks of stated income loans.
- (3) Underwriting standards.
- (4) Workout arrangements.
- (5) Consumer protection principles, including:
  - (a) Use of a summary disclosure form;
  - (b) Avoidance of steering borrowers to inappropriate products;
  - (c) Explanation of payment shock risk;
  - (d) Explanation of prepayment penalty;
  - (e) Explanation of balloon payment;
  - (f) Explanation of costs of low documentation or stated income loans;
  - (g) Compliance with the Truth in Lending Act and other federal requirements;
  - (h) Importance of good consumer communications in promotional materials and product descriptions;
  - (i) Explanation of borrower responsibility for taxes and insurance.
- (6) Development and maintenance of strong internal controls, including:
  - (a) Management of deals with third-party originators;
  - (b) Management of secondary market risk;
  - (c) Effective management information and reporting;
  - (d) Use of stress testing and performance measures;
  - (e) Actual practices consistent with policies.

[Statutory Authority: RCW 43.320.040, 43.320.050, 30A.04.030, 30A.12.060, 30A.04.140, 30A.04.210, 30A.04.212, 30A.60.010 - [30A.60.]901, 30A.08.140, 30A.08.150, 30A.04.125 and section 939A of the Dodd-Frank Act. WSR 17-24-053, § 208-512-430, filed 12/1/17, effective 1/1/18. Statutory Authority: RCW 19.144.040 [19.144.030]. WSR 08-22-070, § 208-512-430, filed 11/4/08, effective 12/5/08.]