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Office of the Comptroller of the Currency  
Board of Governors of the Federal Reserve System  
Federal Deposit Insurance Corporation  
Office of Thrift Supervision  
National Credit Union Administration

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## **Addendum to Credit Risk Management Guidance for Home Equity Lending**

This addendum to the May 2005 *Interagency Credit Risk Management Guidance for Home Equity Lending* (interagency HE lending guidance) provides additional guidance for managing risks associated with open-end home equity lines of credit (HELOCs) that contain interest-only features. While HELOCs with these features may provide flexibility for consumers, the Agencies are concerned that consumers may not fully understand the product terms and associated risks. This addendum provides guidance addressing the timing and content of communications with consumers obtaining interest-only HELOCs. These consumer protection recommendations are similar to the guidance contained in the *Interagency Guidance on Nontraditional Mortgage Product Risks* (September 2006) for closed-end home purchase, refinance, and home equity mortgage products.

### **CREDIT RISK MANAGEMENT SYSTEMS**

#### **Product Development and Marketing**

When promoting or describing HELOCs that permit interest-only payments, institutions should provide consumers with information that is designed to help them make informed decisions regarding product selection and use. Meeting this objective requires appropriate attention to the timing, content, and clarity of information presented to consumers.

Communications with consumers, including advertisements, oral statements, promotional materials, and periodic statements, should provide clear and balanced information about the relative benefits and risks of HELOCs with interest-only features. This includes information about the risk of increased future payment obligations.<sup>1</sup> Information about potential increases in payment obligations should address, among other things, circumstances in which interest rates reach a contractual limit.

If applicable, these materials should also alert the consumer to any prepayment penalty,<sup>2</sup> and the need to seek additional information on the amount of any penalty. Consumers

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<sup>1</sup> The Agencies are concerned about increased future payment obligations due to interest rate increases and the end of a non-amortizing payment period, not payment increases due to additional draws on the line of credit.

<sup>2</sup> For purposes of this guidance, a prepayment penalty for a HELOC is a fee that will be imposed if the borrower pays off the balance and terminates the account in advance of the contractual end date.

should also be informed of any premium that may be charged for a reduced documentation program.

This information should be provided in a timely manner, to assist the consumer in the product selection process. Clear and balanced information should be provided at the time a consumer is shopping for a loan, not just when an application form is provided or at consummation. For example, this information could be provided when a consumer inquires about a home equity product and receives information about products with interest-only features, or when the institution provides the consumer with marketing materials for such products.<sup>3</sup>

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<sup>3</sup> Institutions also should strive to: (1) focus on information important to consumer decision making; (2) highlight key information so that it will be noticed; (3) employ a user-friendly and readily navigable format for presenting the information; and (4) use plain language, with concrete and realistic examples. Comparative tables and information describing key features of available loan products, including reduced documentation programs, also may be useful for consumers.