PRESS RELEASE

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FDIC REPORTS ON LOAN UNDERWRITING PRACTICES

FOR IMMEDIATE RELEASE

Loan underwriting standards remained stable at a group of 2,001 FDIC-supervised institutions that were examined during a 12-month period ending in February. However, in just over 10 percent of the institutions reviewed, FDIC examiners reported that underwriting standards were characterized by higher-than- normal risk.

The review of loan underwriting practices, obtained through a new examiner reporting system, is one of a number of recent initiatives launched by the FDIC in an effort to gather data that can be used to provide early warnings of potential loan problems in the banking system.

"The results will help the FDIC monitor emerging risk in the banking system that could ultimately trigger losses for the deposit insurance funds," said FDIC Chairman Ricki Helfer. "The report will also enable the FDIC to monitor underwriting trends both across and within regions, and to direct our supervisory efforts as needed."

The information gained can be of further use in allocating examiner resources during pre-examination planning and in identifying potential weaknesses in underwriting practices that require further attention during onsite examinations.

During the first year of the program, examiners reported on lending practices at just over 2,000 state-chartered institutions for which the FDIC is the primary federal regulator. Most of the banks were small, community-based institutions. Overall, those institutions represented 17 percent of all FDIC-insured institutions, 9 percent of total assets held by banks and thrifts and 18 percent of the nation's commercial banks.

Fewer than 75 of the institutions reviewed were judged to have lowered their standards over the past year, and the vast majority -- 88 percent -- had not changed their practices from the last examination. Nonetheless, 11 percent of the institutions examined were reported to show either high risk or "more-than-normal risk" in their lending practices.

When asked to report on specific practices, only a few areas of concern emerged. For instance, nearly half of the institutions failed to increase loan prices to reflect changing conditions that resulted in higher levels of risk. The funding of "speculative" construction projects was cited as a problem at almost 14 percent of the institutions that were examined nationwide. Also, examiners at about 10 percent of the institutions noted some weaknesses in consumer loan underwriting.

The report was based on information developed by examiners during the 12-month period ending in early February. All institutions examined by the FDIC since last June were included in the study. The study also included examinations conducted from February to June in 11 states that were chosen primarily because their institutions exhibited rapid loan growth or because they featured highly competitive markets.

The FDIC plans to release its evaluation of loan underwriting trends twice a year.