PRESS RELEASE
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FDIC SURVEY PROVIDES EARLY WARNING OF POTENTIAL LOAN PROBLEMS

FOR IMMEDIATE RELEASE

A new FDIC survey found that while bank underwriting standards are generally sound, some institutions are engaging in lending practices that could lead to future problems.

Nine out of 10 institutions examined by the FDIC in late 1996 and early 1997 showed no material change in underwriting practices since their last examination, a finding that is consistent with past surveys.

Twice as many institutions examined in the six months ending March 31 tightened their underwriting standards compared to those that loosened them. Just over 10 percent of the institutions were characterized as having "above-average" risk in their underwriting practices. However, most of those banks adjusted their loan prices to compensate for the higher risk.

"We are pleased by the stability of credit underwriting standards at banks we've examined since early 1995, but there are some problems that deserve closer monitoring," FDIC Chairman Ricki Helfer said today. "We will continue to use the survey to provide an early-warning mechanism for identifying potential lending problems."

Underwriting encompasses the terms and conditions of loan agreements that determine the riskiness of a particular credit.

The review of the loan underwriting practices of banks, obtained through an examiner reporting system implemented in early 1995, is one of a number of FDIC initiatives aimed at providing early warnings of potential problems in the banking system. FDIC examiners provide a general assessment of an institution's underwriting standards and comment on potential problem areas specific to different types of loans.

The information gathered during the examinations also helps to allocate future examiner resources and to identify potential weaknesses in underwriting practices worthy of additional attention during on-site examinations.

For the latest period, examiners reported on lending practices at 1,277 state-chartered banks and savings institutions for which the FDIC is the primary federal regulator. The results cover reports filed during the six months ending March 31, 1997. Most of the banks were small, community-based institutions. They represent 20 percent of the institutions supervised by the FDIC, and hold 28 percent of the assets of FDIC-regulated banks and thrifts.

The new FDIC report found that the vast majority of banks surveyed (91 percent) had no material change in their underwriting practices since the previous examination. Six percent were judged to have tightened their lending practices, while only three percent loosened their standards. When asked to report on specific practices, FDIC examiners cited some areas of potential concern:

Thirteen percent of the institutions were characterized by "above-average" risk in their loan administration -- typically the supervision and management of the loan process, including verifying information in applications and monitoring loan payments. Examiners in each FDIC region cited this problem more frequently than other underwriting weaknesses.

Approximately six percent of the banks examined were characterized as "commonly" having high concentrations of loans to one borrower or industry.

Nearly 22 percent of the 593 "active" construction lenders examined customarily funded speculative construction projects.

Seven percent of the 619 banks that are active in agricultural lending had portfolios tied "substantially" to major crops affected by the phase-out of farm subsidies enacted by Congress last year.

Chairman Helfer said the FDIC is closely monitoring the effect on agricultural banks of the phase-out of the farm subsidy.

"Those banks that are at risk still have several years to adjust their portfolios before the subsidies are removed," she said. "We urge them to take the necessary steps as soon as feasible."

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