PRESS RELEASE
Federal Deposit Insurance Corporation

Media Contact:
Jay Rosenstein (202) 898-7303

November 30, 1998

FDIC REPORT NOTES SLIGHT INCREASE IN RISK WITH BANKS' LOAN UNDERWRITING PRACTICES

FOR IMMEDIATE RELEASE

FDIC examiners reported a slight increase in the risk associated with loan underwriting practices at FDIC-supervised banks during the six months ending September 30, 1998, compared to the previous six-month period ending March 31, 1998.

"The slight increase in risk in current underwriting practices appears to be caused by a combination of factors," said FDIC Chairman Donna Tanoue. "Our examiners reported greater concerns about some current practices, such as written lending policies differing from actual practices, as well as greater concerns about the risk in loan administration. In addition, increased uncertainty about the economic outlook might have contributed to concerns about the risk in current practices, even when those practices did not change."

The most recent FDIC Report on Underwriting Practices comprises responses from FDIC examiners to survey questions regarding the lending practices at 1,104 FDIC-supervised banks examined during the six months ending September 30, 1998. For the report, examiners give a general assessment of each bank's underwriting practices overall, as well as for specific categories of loans.

Key findings of the latest report showed increases from the previous report in the percentage of banks that:

- Had "above-average" risk in underwriting practices for current lending, 12 percent compared with 10 percent previously;

- Had written lending policies that differed "substantially" from actual practices, six percent compared with four percent previously; and

- Were characterized with "above-average" risk in loan administration, 13 percent compared with 11 percent previously.

In addition, examiners' concern remained about the same or decreased compared with the previous report for some underwriting practices in individual loan categories.
The report on loan underwriting practices, which was started in early 1995, is one of a number of FDIC initiatives aimed at providing early warnings of potential problems in the banking system. In addition, the information gathered during examinations helps the FDIC target future examiner resources and identify potential weaknesses in underwriting practices that will draw additional attention during on-site examinations.

In previous issues of the Report on Underwriting Practices, readers have been informed about weaknesses in the data because the sample is not random -- it only includes banks examined during the reporting period. The FDIC's examination schedule is heavily influenced by the financial condition of a bank and the availability of examination staff. Thus, in the past, the sample was not representative of the universe of FDIC-supervised banks. However, beginning with this report, the FDIC statistically weighted the responses to partially address the potential bias in the results that a nonrandom sample might cause. The weights are designed to make questionnaire responses, in the aggregate, more reflective of all FDIC-supervised banks. The percentages reported refer to these weighted responses and represent an estimate of all FDIC-supervised banks' underwriting.

Last Updated 07/14/1999