PRESS RELEASE
Federal Deposit Insurance Corporation

May 11, 1998

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FDIC REPORT NOTES WEAKENING IN UNDERWRITING PRACTICES IN MAJOR LOAN CATEGORIES

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Banks' underwriting practices have weakened across the board during the last year, according to FDIC examiners.

"FDIC examiners noted easing in standards for commercial real estate and construction lending in our previous report six months ago," said FDIC Chairman Andrew C. Hove, Jr. "While weakened underwriting standards still are most evident in commercial real estate and construction lending, these early signs of adverse trends across the board call for our continued close monitoring of underwriting practices for all major types of loans."

The most recent FDIC Report on Underwriting Practices is based on responses from FDIC examiners to survey questions regarding the lending practices at 1,212 FDIC-supervised banks examined during the six months ending March 31, 1998. For the report, examiners give a general assessment of each bank's underwriting practices overall, as well as for specific types of loans. They classify the occurrence of specific risky practices as "frequent enough to warrant notice" or, if more prevalent, as "common or standard procedure." Key findings of the report include:

- Of the 387 banks examined that were actively making construction loans, almost 31 percent frequently funded speculative construction projects, compared to 18 percent of the 593 active construction lenders in the report a year earlier. A little less than eight percent funded speculative construction projects commonly, up from four percent the previous year.
- Approximately 13 percent of the 612 banks examined that were actively making commercial (nonresidential) real estate loans frequently failed to consider

repayment sources other than the project being funded. A year ago, that percentage stood at eight percent (of 832 active lenders).
2-The report also said that:

- Among the 806 banks examined that were actively making business loans, almost 21 percent frequently made them to borrowers who lacked documented financial strength to support such lending, while three percent did so commonly. Both are increases from a year earlier.

- Of the 604 banks examined that were active consumer lenders, a higher proportion (19 percent) of these banks compared to a year ago frequently made loans to borrowers lacking a demonstrable ability to repay.

- On the positive side, 96 percent-the same as a year ago-of the 77 banks active in credit card lending had below-average or average risk in underwriting practices for new credit card loans.

Almost 12 percent of all the banks examined in the most recent period exhibited a material change in underwriting standards since their previous examination, with slightly more than six percent loosening their practices and five percent tightening them. That proportion is up from 10 percent a year ago. However, during the previous year, more than six percent tightened while only three percent loosened.

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. The banks covered by the most recent report represented 20 percent of the number of institutions supervised by the FDIC. Most of the banks examined were small, community-based institutions. They held 22 percent of the assets of FDIC-supervised banks.

Last Updated 07/14/1999