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FDIC REPORT NOTES LITTLE CHANGE IN BANKS' LOAN UNDERWRITING PRACTICES

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FDIC examiners reported no significant change in overall loan underwriting practices at FDIC-supervised banks, according to the FDIC's latest *Report on Underwriting Practices* covering the six months ending September 30, 1999. However in the major lending category of agriculture, examiners reported increased concerns about the level of farm banks' "carryover debt" - agricultural loans not paid off at the end of the growing season.

"The good news is that examiners continue to find that the vast majority of FDIC-supervised banks have sound underwriting practices," noted FDIC Chairman Donna Tanoue. "However, we are carefully monitoring recent trends in farm carryover debt. In addition, we are increasing our attention to subprime lending."

The FDIC's report on loan underwriting practices, which was started in early 1995, is one of a number of agency 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 most recent FDIC *Report on Underwriting Practices* summarizes responses from FDIC examiners to survey questions regarding the lending practices at 1,227 FDIC-supervised banks examined during the six months ending September 30, 1999. For the report, examiners give a general assessment of each bank's underwriting practices overall, as well as for specific categories of loans.

During this most recent reporting period, examiners reported:

- Only four percent of FDIC-supervised banks had "high" risk in current underwriting practices for new loans or in their loan portfolios, up only slightly from three percent previously for each.

- Five percent had "high" risk in loan administration (typically the supervision and management of the loan process, including verifying information in applications and monitoring loan payments), the same as in the previous period.

- Once again, only three percent failed to adjust loan pricing to reflect differences in risk "commonly or as standard procedure." However, 11 percent did so "frequently enough to warrant notice," up from eight percent previously.

- Three percent failed to require a material reduction in principal before renewing term loans "commonly or as standard procedure" (down slightly from four percent in the previous report), while 21 percent failed to do so "frequently enough to warrant notice" (up slightly from 20 percent).

Among loan types, the frequency of risky practices declined, except for an increase in farm carryover debt. Approximately 37 percent of FDIC-supervised banks active in farm lending were found to have a "moderate" increase in the level of carryover debt (up from 29 percent previously), and five percent showed a "sharp" increase (up from three percent).

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