PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC PROPOSES NEW CAPITAL REQUIREMENTS FOR SUBPRIME LENDERS

FOR IMMEDIATE RELEASE

The Federal Deposit Insurance Corporation (FDIC) is recommending higher capital requirements for insured banks and savings associations engaged in subprime lending, Chairman Donna Tanoue told America's Community Bankers today in Orlando, FL.

"I believe thrifts and banks with high concentrations of subprime loans should be required to hold more capital than the current rules now dictate. A lot more," Chairman Tanoue stated. "At the FDIC, our thoughts are that the amount in the highest risk cases should be several times greater than the current requirement." The FDIC proposes that capital requirements vary from institution to institution.

Subprime lending attracts higher yielding, lower credit quality borrowers, which can cause high levels of risk to the deposit insurance funds.

"To the extent the insurance funds indirectly backstop categorically greater asset risks, the risks are transferred to the FDIC and the costs of problems will be borne by those who ultimately pay for operating the deposit insurance system. That means you," Chairman Tanoue told the banking executives.

The FDIC does not define subprime loans as all loans underwritten using nonconventional credit standards. Loans with a community development purpose are not considered subprime loans. Affordable housing loans, for example, often are underwritten using nonconventional underwriting standards, but are done in a safe and sound manner. Subprime loans, in contrast, are sometimes predatory and are often made without regard to the underlying risk.

The FDIC is targeting subprime programs currently engaged in by less than two percent of the industry. It found 150 banks and thrifts that have subprime portfolios exceeding 20 percent of capital. Altogether, these institutions hold approximately 5 percent of industry assets and about 6 percent of total insured deposits. These institutions absorb a disproportionate share of supervisory resources, and create extremely high costs for the deposit insurance funds when institutions in these programs fail.

Nearly 20 percent of the institutions on the FDIC's "problem" list have subprime lending portfolios exceeding their equity capital. Five of the nine insured banks that failed in 1998 and so far in 1999 had significant subprime portfolios.

The FDIC expects insured institutions engaged in subprime lending to employ the prudent risk management standards outlined in the Interagency Guidance on Subprime Lending, issued in March by the federal banking agencies, and will be closely looking at their programs. "Let me be clear. If a bank conducts its subprime business poorly, we will object and take action so that corrections are made," said Chairman Tanoue.

The FDIC intends to share its proposal on new capital requirements with the other financial institution regulators later this month to refine a final approach. The proposal will include a common supervisory definition of subprime lending. It will also tie capital adequacy to the types and levels of risks that individual subprime lenders have in their portfolios.

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