PRESS RELEASE

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FDIC REPORT NOTES DECREASE IN RISK WITH BANKS' LOAN UNDERWRITING PRACTICES

FOR IMMEDIATE RELEASE

FDIC examiners reported fewer instances of risky loan underwriting practices at FDIC-supervised banks during the six months ending March 31, 1999, compared with the previous six-month period ending September 30, 1998. In addition, examiners reported a small proportion of banks with "high" risk in current underwriting practices, loan portfolios and loan administration.

While the data show a decrease in the occurrence of risky underwriting practices since the previous examination, FDIC examiners did note concerns about the level of "carryover debt" at FDIC-supervised banks actively making agricultural loans. Carryover debt refers to loans that are not paid off at the end of the growing season and are subsequently carried over into the next growing season; this debt is sometimes included in new loans.

"Low crop and livestock prices could translate into even sharper future increases in the level of carryover debt for many lenders," said FDIC Chairman Donna Tanoue. "The FDIC plans to continue monitoring the underwriting practices for agricultural loans and prices for crops and livestock."

The most recent FDIC *Report on Underwriting Practices* comprises responses from FDIC examiners to survey questions regarding the lending practices at 958 FDIC-supervised banks examined during the six months ending March 31, 1999. 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 relatively few FDIC-supervised banks with high risk in current underwriting practices, loan portfolios and loan administration. For example:

- Three percent of FDIC-supervised banks had "high" risk in current underwriting practices for new loans;

- Three percent had "high" potential credit risk in their loan portfolios

- 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;

- Only three percent failed to adjust loan pricing to reflect differences in risk "commonly or as standard procedure" (down from five percent during the previous reporting period), while eight percent did so "frequently enough to warrant notice" (down from 22 percent previously).

- Four percent failed to require a material reduction in principal before renewing term loans "commonly or as standard procedure" (down from five percent in the previous report), while 20 percent failed to do so "frequently enough to warrant notice" (down from 33 percent).

The frequency of specific risky underwriting practices in major loan categories also decreased from the previous reporting period, except in the loan categories of business and agricultural lending. Approximately 29 percent of the FDIC-supervised banks active in agricultural lending showed a "moderate" increase in the level of carryover debt (up from 24 percent previously), and three percent showed a "sharp" increase (up from two percent).

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.

Beginning with this reporting period, the questions and, in some cases, the possible responses to questions have changed from past reports.

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