



# PRESS RELEASE

Federal Deposit Insurance Corporation

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## Time of Transition to Follow Record-Setting Housing Boom, Powell Cautions

*'Non-Traditional' Mortgages May Elevate Risks for Some Banks and Homeowners*

Residential mortgage lenders and borrowers need to be prepared for more challenging conditions ahead as U.S. housing markets enter a time of transition, said Federal Deposit Insurance Corporation (FDIC) Chairman Don Powell today in remarks at the America's Community Bankers Annual Convention in Orlando, Florida.

"The U.S. has experienced a 5-year housing boom capped by record home-price growth since 2004," said Powell. "As housing costs escalate, it is not surprising to see the rapid rise in so-called 'non-traditional' mortgages – such as 'piggyback' mortgages, low- and no-doc loans, interest-only loans, and loans with optional payment terms allowing for considerable negative amortization – all of which grew quickly in prominence over the last year.

"We know that housing booms don't last forever, and that rising interest rates will push debt service higher for borrowers relying on some of these emerging mortgage products. Credit losses are very low now, but mortgage lenders need to be prepared for higher losses. Homeowners taking on these types of mortgage product need to understand how their obligation may grow when their low introductory interest rates expire."

Powell said that the bank regulatory agencies are evaluating the importance of these and other risks to lenders. Bank regulators are looking at the lending programs of banks and will issue guidance where appropriate. Powell added that mortgage lending guidance should not prohibit innovation, but should seek to define and uphold the principles of sound banking. "We of course want to ensure that banks can continue to serve as engines of growth for our economy."



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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Home prices – adjusted for inflation – grew in 2004 at the fastest rate (8.1 percent after correcting for inflation) since the Office of Federal Housing Enterprise Oversight (OFHEO) began tracking the data in 1975, Powell noted. So far in 2005, home price growth has topped 2004 records.

Powell added that the housing boom is also breaking records in geographic scope: As far back as the early 1980s, the FDIC has not seen this number of metro housing markets booming simultaneously across the country, and no previous experience comes close to today's trend. (The FDIC defines a metro area boom as one in which home prices rose more than 30 percent after inflation during a three-year period.) The FDIC found the boom markets increased from 33 cities at year-end 2003 to 55 cities at year-end 2004. The FDIC estimates that these boom cities include about 40 percent of the value of all U.S. residential real estate.