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FDIC Announces Interagency Statement on Meeting the Needs of Creditworthy Borrowers

The Federal Deposit Insurance Corporation has issued an Interagency Statement on Meeting the Needs of Creditworthy Borrowers to all FDIC supervised institutions. The statement encourages financial institutions to support the lending needs of creditworthy borrowers, strengthen capital, engage in loss-mitigation strategies and foreclosure-prevention strategies with mortgage borrowers, and assess the incentive implications of compensation policies.

The federal government has recently put into place several federal programs to promote financial stability and mitigate the effects of current market conditions on insured depository institutions. It is imperative that institutions continue making loans available to creditworthy borrowers to meet the credit needs of households and businesses to promote economic growth.

"Government programs to facilitate economic recovery and credit availability must be used by institutions in a manner that is consistent with their underlying goal. This statement offers guidance on the expectations of regulators on many key issues, including prudent lending practices, executive compensation and the treatment of dividends," said FDIC Chairman Sheila C. Bair. "The statement also outlines the necessity of adopting proactive, systematic and streamlined loan modifications designed to achieve sustainable and performing loans, and the need to conduct an analysis of whether a loan modification would present greater value *before* proceeding to foreclosure. Achieving wide scale modifications of distressed mortgages, particularly those held in private securitization trusts, will address our underlying economic problem: too many unaffordable home loans."

Specifically, the FDIC encourages institutions it supervises to lend prudently and responsibly to creditworthy borrowers, work with borrowers to preserve homeownership and avoid preventable foreclosures, adjust dividend policies to preserve capital and lending capacity and employ compensation structures that encourage prudent lending.

State nonmember institutions' adherence to these expectations will be reflected in examination ratings the FDIC assigns for purposes of assessing safety and soundness, their compliance with laws and regulations, and their performance in meeting the requirements of the Community Reinvestment Act (CRA).

The interagency statement is available at:

http://www.fdic.gov/news/news/press/2008/pr08115.html