# PRESS RELEASE

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## FDIC ANALYSTS REVIEW HIGH LOAN-TO-VALUE LENDING; EVALUATE TRENDS IN COMMERCIAL REAL ESTATE MARKETS

**FOR IMMEDIATE RELEASE**

Three articles in the first quarter edition of the Regional Outlook released today by the Federal Deposit Insurance Corporation (FDIC) examine issues and trends in high loan-to-value (HLTV) home equity lending, commercial real estate markets and syndicated lending.

HLTV lending is characterized by underwriting practices that are typically more aggressive than traditional mortgage lending, providing for loans up to 125 to 150 percent of the value of the underlying collateral. According to analysts in the FDIC's Division of Insurance, these loans pose unique risks because they combine characteristics of both a secured home equity loan and an unsecured consumer loan. Charge-off rates on HLTV loans are increasing and the severity and frequency of default are much higher than for traditional home equity loans.

The FDIC also reviews developments in commercial real estate (CRE) markets across the country. In an update to a study published by the agency in October of 1998, the focus is on the current pace of commercial development, various indicators of current and prospective demand, and projections by industry analysts to identify markets that may be susceptible to overbuilding across multiple property types. In the Regional Perspectives section, analysts in the FDIC's eight regional offices provide additional insights into CRE development in several major metropolitan markets.

FDIC analysts also discuss recent trends in syndicated lending, and the implications that competitive pressures and secondary market liquidity may have on underwriting trends and the risk profiles of commercial banks active in this market.

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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Regional analysts continue to report the repercussions of low commodity prices on agricultural producers and farm banks. The Chicago and Kansas City Regions note surveys indicating that declines in farmland values occurred in portions of Indiana, Illinois, Iowa, Missouri, Kansas, Nebraska, and North Dakota. While agricultural loan repayments weakened over the last year, increases in loan quality problems at agricultural banks were reported only in isolated areas that, in addition to low commodity prices, have experienced weather- and disease-related problems. However, according to analysts in the Dallas Region, in last summer's drought stricken areas of Texas and Oklahoma, agricultural banks continued to report few problems.

Analysts report that farm banks generally are in relatively strong financial condition, but if weak exports of farm products and low commodity prices continue into 2000, the financial condition of farmers could deteriorate significantly and cause stress at farm banks.

This quarter, the FDIC introduces the National Edition of the Regional Outlook, which contains highlights of its regional analysis of trends affecting FDIC-insured institutions across the United States. The eight unabridged Regional Outlook editions are still available for those who want more detailed information. All editions will continue to offer the In Focus series of articles on trends affecting the risk exposures of FDIC-insured institutions.

The Regional Outlook for each FDIC region and the National Edition are available on the Internet via the World Wide Web at www.fdic.gov or from the FDIC's Public Information Center (800-276-6003 or (703) 562-2200). To subscribe to the Regional Outlook, contact the Center.

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