NEWS RELEASE

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FDIC BOARD ADOPTS NEW STANDARDS FOR PRUDENT REAL ESTATE LENDING

The FDIC Board of Directors today agreed to a new rule that requires banks and thrifts to develop written policies for prudent real estate lending, including loan-to-value (LTV) limitations. The regulation, which is being developed on an interagency basis, does not require certain LTV limits as the FDIC initially proposed in June. Instead, the rule suggests upper limits under guidelines that institutions are expected to follow.

The rulemaking complies with the FDIC Improvement Act of 1991, which requires the FDIC, the Federal Reserve Board, the Office of the Comptroller of the Currency and the Office of Thrift Supervision to adopt uniform regulations prescribing standards for real estate lending, effective March 19, 1993. The four agencies are expected to issue the uniform regulation and guidelines in the coming weeks.

The final rule requires each institution to develop a written real estate lending policy that establishes prudent standards for such areas as portfolio diversification and loan underwriting, including LTV limits. The policy must be reviewed and approved at least annually by the institution's board of directors. The supplementary guidelines suggest maximum loan-to-value limits for various categories of loans and explain how the agencies intend to monitor the use of LTV standards.

Under the guidelines, each institution is expected to set loan-to-value ratios not to exceed the following: 65 percent for raw land; 75 percent for land development; 80 percent for commercial, multi-family and other

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non-residential construction; 85 percent for construction of a one-to-four family residence; and 85 percent for the purchase of an existing commercial, multi-family and other non-residential building. Certain real estate loans are exempt because they have other features that reduce risks, such as being guaranteed or insured by the federal, state or local government.

An institution can make loans in excess of these upper limits if other credit factors support the loan. However, the aggregate of loans in excess of the limits should not exceed the institution's total capital level. Any such loans for commercial, agricultural, multi-family and other residential properties (excluding one-to-four family home loans) should not, in the aggregate, exceed 30 percent of total capital. An institution will receive increased scrutiny from the regulators as these loans approach the thresholds.

There is no suggested LTV limit for owner-occupied, one-to-four family home loans and home equity loans. However, any such loans with an LTV of 90 percent or higher are expected to carry appropriate private mortgage insurance or readily marketable collateral. In addition, the secondary mortgage markets have underwriting standards for one-to-four family mortgages and home equity loans that institutions are urged to take into consideration.

Although the interagency rule and guidelines are more generous than FDIC staff had recommended, FDIC officials noted that an institution still could be subject to enforcement actions if there is evidence of unsafe and unsound practices. FDIC officials also stressed that that lenders should not assume that loans within the LTV guidelines are automatically sound.

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