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SEIDMAN SAYS CLEAR REAL ESTATE LOAN STANDARDS COULD EASE CREDIT CRUNCH

FDIC Chairman L. William Seidman in a speech today said a lack of clear standards for real estate lending is contributing to the credit crunch and must be corrected.

He urged bankers, real estate agents and developers to join with the regulators in fashioning unambiguous lending standards that could serve the dual purpose of preventing losses and freeing up credit.

In the speech to the William E. Simon Graduate School of Business at the University of Rochester in New York, Chairman Seidman elaborated on testimony he gave to the House Banking Committee last week urging new real estate lending rules in order to cut losses to the Bank Insurance Fund.

As in his testimony, Chairman Seidman reiterated that liberalized banking and tax laws in the past two decades contributed to ambiguous lending standards. Those, in turn, led to increases in bad construction and land development loans that were major factors in many recent bank failures at great cost to the Bank Insurance Fund.

Mr. Seidman today stressed that his requests for standards are not intended to "make the credit crunch worse," as some in the real estate industry have said. In fact, he said, new standards should help ease the credit crunch. The FDIC Chairman explained that past excesses in real estate lending practices "contributed to over-building and the resulting high vacancy rates" during the 1980s, which caused stress in the banking system and reduced credit availability. He also said existing guidelines are so ambiguous in their descriptions of good real estate loans that many bankers are "worried about making any commercial real estate loans."

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Chairman Seidman said the regulators plan to work with the major banking and real estate industry trade groups to develop guidelines that would remove the ambiguity.

While stating that real estate lending guidelines could be written into law by Congress, Mr. Seidman said his preference would be for the lawmakers to give the regulators the authority and the flexibility to set sensible standards.

He noted that prior to changes in banking and tax laws during the last two decades, national banks were limited by statute in their overall concentrations in real estate lending. The banks also were prohibited from making loans on raw land or construction loans where the builder contributed less than 25 percent of the equity.

"The problem is," he said, "we erased the old guidelines; and we really don't have any clearly defined new guidelines with respect to what 'good' real estate construction loans are."

Chairman Seidman said reinstating the old laws may not be appropriate. "But I do think it is appropriate and necessary to set some standards that prevent the kinds of excesses we've seen in recent years -- the kinds of excesses that wreaked havoc on the thrift industry and are now threatening some of our banks," he said.

The FDIC Chairman said the banking and real estate industries would benefit from clear standards because these rules "will prevent the weak and reckless from bringing down the strong and conservative in their industries." That is important, he said, because "the good bankers" now must pay higher premiums to the Bank Insurance Fund "to cover the excesses of their less prudent brothers" and many in the real estate industry are unable to finance worthy projects "because so many of their compatriots took advantage of a lack of appropriate standards in the lending institutions."

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