Report on Underwriting Practices

Federal Deposit Insurance Corporation

Donna Tanoue, Chairman

OCTOBER 1998 THROUGH MARCH 1999

HIGHLIGHTS

- **During this reporting period,** the questionnaire was revised. As a result, both the questions and, in some cases, the responses to questions have changed from past reports.
- During the six-months ending March 31, 1999, examiners reported that the frequency of risky underwriting practices decreased for new lending in general compared with the previous six-months ending September 30, 1998.
- Approximately 91 percent of FDIC-supervised banks showed no material change in underwriting practices since the previous examination. The proportion of banks tightening underwriting practices since the previous examination was slightly larger than the proportion loosening them—5 percent compared with 4 percent.
- In addition, examiners reported that the proportion of banks with an absolute level of "high" risk in underwriting practices, loan portfolios, and loan administration was small.
- Except in the major loan categories of business and agriculture, the frequency of specific risky underwriting practices in major loan categories decreased from the previous reporting period. In the category for business lending, the increase in frequency was slight. In the category for agricultural lending, examiners were mainly concerned with the level of the institution's carryover debt since the previous examination. Twenty-nine percent of FDIC-supervised banks actively making agricultural loans showed a "moderate" increase in the level of carryover debt (up from 24 percent during the previous period). Three percent showed a "sharp" increase (up from 2 percent previously).

Purpose and Design of the Report

In early 1995, the FDIC introduced a supplementary examination questionnaire on current underwriting practices at FDIC-supervised banks. The questionnaire focuses on three topics: material changes in underwriting practices for new loans, the overall degree of risk in underwriting practices for new loans, and the frequency of specific risks in underwriting practices within major categories of loans. These categories are business, consumer, commercial (nonresidential) real estate, agricultural, construction, home equity, and credit card loans. Examiners are also asked to report whether the institution is active in additional loan categories that pose more than normal risk. These categories include unguaranteed portions of Small Business Administration (SBA) loans, subprime loans (automobiles, mortgages), dealer paper loans, low/no-document business loans, high loan-to-value ratio home equity loans (up to 125%), or any other category of loan not mentioned. The systematic collection and analysis of questionnaire responses provides an early-warning mechanism for identifying potential lending problems.

Examiners evaluate underwriting practices in terms of FDIC supervisory practices. **Until October 1, 1998,** examiners were asked to rate the risk associated with a bank's underwriting practices in relative terms: "above average," "average," or "below average." **Beginning October 1, 1998**, examiners began rating the risk associated with a bank's underwriting practices in absolute terms: "low," "medium," or "high."[1] New questions about underwriting practices were also added to the questionnaire. Examiners continue to classify the frequency with which specific risky underwriting practices are used as "never or infrequently," "frequently enough to warrant notice," or, if the risky practice is used more often, "commonly or as standard procedure."[2]

The questionnaire is completed at the conclusion of each bank examination the FDIC conducts. Which banks are included during a reporting period, therefore, depends on how the FDIC schedules bank examinations. Examination schedules are heavily influenced by the financial condition of a bank, with the examinations generally becoming more frequent the poorer a bank's financial condition. In addition, the FDIC shares examination authority of state-chartered nonmember banks (those that

[1]**Low:** The level of risk imposed on the institution does not warrant notice by bank supervisors even when factors that might offset the risk are ignored. **Medium:** The level of risk should be brought to the attention of bank supervisors. There may or may not be factors that offset the risk imposed on the institution; however, the level of risk raises concerns when considered apart from these offsetting factors. **High:** The level of risk is high and therefore should be brought to the immediate attention of bank supervisors. There may or may not be factors that offset the risk imposed on the institution; however, the level of risk is high when viewed in isolation.

[2]**Never or infrequently:** The institution does not engage in the practice, or does so only to an extent that does not warrant notice by bank supervisors. **Frequently enough to warrant notice:** The institution engages in the practice often enough for it to be brought to the attention of bank supervisors. There may or may not be factors that offset the risks the practice imposes on the institution. **Commonly or as standard procedure:** The practice is either common or standard at the institution and therefore should be brought to the attention of bank supervisors. There may or may not be factors that offset the risks the practice imposes on the institution.

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are not members of the Federal Reserve System) with state bank regulators. To avoid excessive regulatory burden, the FDIC generally alternates examinations with state regulators (who do not submit questionnaires). Finally, examination schedules are affected by the availability of examination staff. For these reasons the group of banks included in any given report is not randomly selected and therefore **may not** be representative of the population of FDIC-supervised banks.

To address the potential bias that examination scheduling might introduce into the report's results, we statistically weight the responses. The weights are designed to make questionnaire responses in the aggregate more reflective of the population of FDIC-supervised banks. Simply put, when we compute aggregate questionnaire responses, we give greater weight to FDIC-supervised banks that are "underrepresented" in the questionnaire (when compared with the population of FDIC-supervised banks) and less weight to "overrepresented" groups.[3] Although these weightings cannot remove all potential bias, the weighted responses allow for more meaningful comparisons of results over time. Nevertheless, we advise readers to interpret trends cautiously, for two reasons: (1) the lack of random selection of banks for examination, as noted above, and (2) the small number of responses for some loan categories.

Throughout this report, the proportions presented refer to these weighted responses and are *estimates* of the underwriting practices of all FDIC-supervised banks. In addition, the data used to weight responses in this report are subject to slight revisions, so some of the weighted proportions might be revised in subsequent reports. We expect no substantive changes, however.

GENERAL UNDERWRITING TRENDS

During the reporting period October 1, 1998, through March 31, 1999, examiners indicated that 91 percent of FDIC-supervised banks showed no material change in underwriting practices since the previous examination. The proportion of banks tightening underwriting practices since the previous examination was slightly larger than the proportion loosening them —5 percent compared with 4 percent. Examiners indicated that the two main reasons for a change in underwriting practices were changes in the bank's management and a desire to achieve the bank's growth goals.

During the six months ending March 31, 1999, examiners reported that the frequency in risky underwriting practices decreased compared with the previous six months ending September 30, 1998. In addition, the proportion of banks with an absolute level of "high" risk in underwriting practices, loan portfolios, and loan administration was small. For example, the proportion of FDIC-supervised banks characterized with "high" risk in current underwriting practices was 3 percent; with "medium" risk, 32 percent; and with "low" risk, 65 percent.

[3]For more information about the weights, please contact Virginia Olin, DRS, (202) 898-8711.

Other findings for FDIC-supervised banks showed the following (listed in the order of the questions in the table on page 6):

- Only 4 percent had "high" risk associated with loan growth and/or significant changes in lending activities since the previous examination; 29 percent had "medium" risk; and 55 percent had "low" risk associated with loan growth and/or significant changes in lending activities since the previous examination. Approximately 12 percent showed insignificant changes in loan growth since the previous examination.
- Only 3 percent had "high" potential credit risk in their current loan portfolios; 31 percent had "medium"; and 66 percent had "low."
- Only 1 percent had "high" potential risk in underwriting practices associated with loan participations purchased by the institution; 19 percent had "medium" potential risk; and 80 percent had "low" potential risk. (Nearly one-third of the institutions examined during the reporting period did not purchase loan participations.)
- Approximately 7 percent made loans that resulted in high concentrations of loans to one borrower or to one industry "commonly or as standard procedure" (about the same as during the previous reporting period). Another 13 percent did so "frequently enough to warrant notice" (down from 15 percent previously); and 80 percent did so "never or infrequently" (up from 78 percent previously).
- Only 3 percent engaged in out-of-area financing "commonly or as standard procedure"; 8 percent engaged "frequently enough to warrant notice"; and 89 percent engaged in out-of-area financing "never or infrequently."
- Only 5 percent had "high" potential credit risk associated with loan administration; 31 percent had "medium"; and 65 percent had "low."
- Only 3 percent failed to adjust loan pricing on different-quality loans to reflect differences in risk "commonly or as standard procedure" (down from 5 percent during the previous reporting period); 8 percent did so "frequently enough to warrant notice" (down from 22 percent previously); and 89 percent did so "never or infrequently" (up from 73 percent previously).
- Four percent failed to require a material reduction in principal before renewing term loans "commonly or as standard procedure" (down from 5 percent during the previous reporting period); 20 percent failed to do so "frequently enough to warrant notice" (down from 33 percent previously); and 76 percent failed to do so "never or infrequently" (up from 63 percent previously).

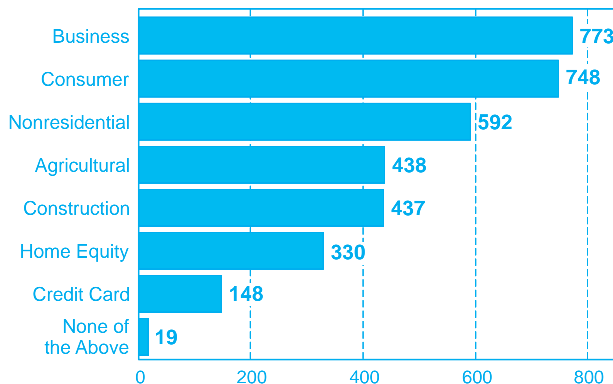
- Three percent had written lending policies that differed from actual practices “commonly or as standard procedure” (down from 6 percent during the previous reporting period); 17 percent had written lending policies that differed from actual practices “frequently enough to warrant notice” (down from 23 percent previously); and 80 percent had written lending policies that differed from actual practices “never or infrequently” (up from 72 percent previously).

Of the 958 banks examined, few used a credit scoring model for credit decisions (187). The model was used most frequently for consumer installment lending (86).

INDIVIDUAL LOAN CATEGORIES

Responses during this reporting period show that 773 of the 958 banks examined were active business lenders; 748 banks were actively making consumer loans (excluding credit-cards); and 592 banks were actively making commercial (nonresidential) real estate loans. The numbers for other loan categories are shown in the accompanying chart. Only 205 banks examined had activity in additional loan categories, mainly in dealer paper loans (107).

Number of Banks Actively Making Loans by Loan Type
Responses Received: 10/98–3/99



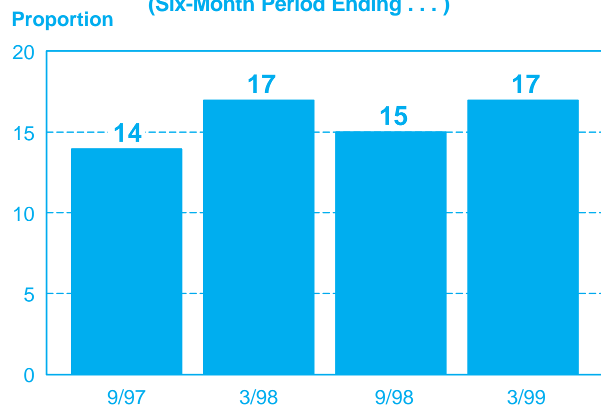
Total number of banks: 958.

Except in business and agricultural lending, the frequency of specific risky underwriting practices in major loan categories decreased from the previous reporting period (the six months ending September 30, 1998). However, examiners occasionally commented that there were documentation deficiencies across loan categories and that some lenders were making character-based loans (loans based on the lending officer’s personal knowledge of the borrower). In general, examiners were not concerned about the quality of such loans.

Business Loans

Examiners review underwriting practices for business loans to ensure that each borrower’s financial strength and source of repayment are taken into account. With asset-based loans, examiners review practices to verify that the bank monitors the collateral pledged.

Business Loans
Loans Made without Clear and Predictable Repayment Source
(Six-Month Period Ending . . .)



Proportion of FDIC-supervised banks making such loans either "frequently enough to warrant notice" or "commonly."

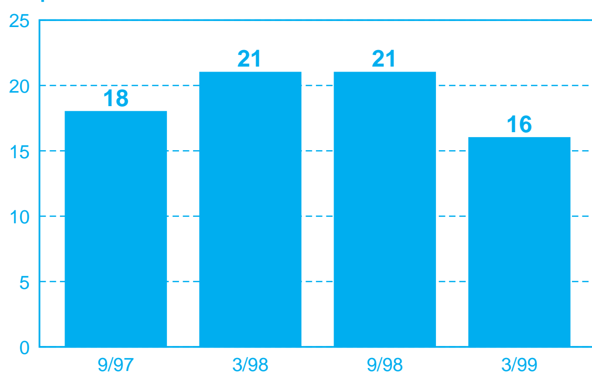
Among the FDIC-supervised banks actively making business loans,

- Fourteen percent made business loans without a clear and reasonably predictable repayment source “frequently enough to warrant notice.” Three percent did so “commonly or as standard procedure” (up from 13 percent and 2 percent, respectively, during the previous reporting period).
- Almost 17 percent made business loans to borrowers who lacked documented financial strength to support such lending “frequently enough to warrant notice.” An additional 2 percent did so “commonly or as standard procedure” (down from 19 and 3 percent, respectively).
- Of the banks making asset-based business loans (a subset of active business lenders), 20 percent failed to monitor the collateral pledged “frequently enough to warrant notice”; another 3 percent did so “commonly or as standard procedure” (up from 14 percent and 2 percent, respectively).

Consumer Loans (Excluding Credit Card Lending)

The frequency of specific risky underwriting practices in consumer lending decreased from the previous reporting period. Of the FDIC-supervised banks actively making consumer loans (excluding credit card lending),

- Eleven percent made consumer loans without adequate collateral protection “frequently enough to warrant notice”; an additional 3 percent made such loans “commonly or as standard procedure” (compared with 14 percent and 4 percent, respectively, during the previous reporting period).
- Fourteen percent made loans to borrowers who lack a demonstrable ability to repay “frequently enough to warrant notice”; an additional 3 percent did so “commonly or as standard procedure.” (Previously the comparable figures were 16 percent and 5 percent, respectively.)



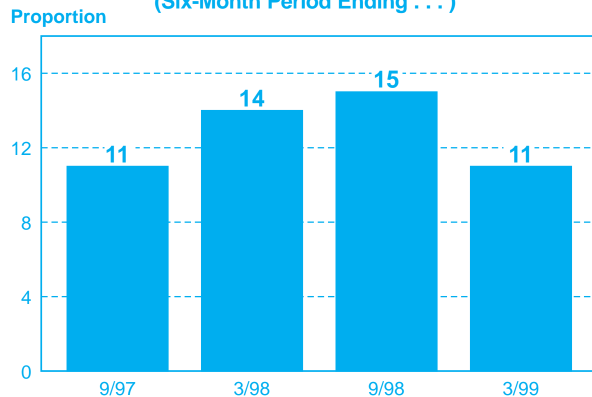
Proportion of FDIC-supervised banks making such loans either "frequently enough to warrant notice" or "commonly."

Commercial (Nonresidential) Real Estate Loans

In commercial (nonresidential) real estate lending, examiners review underwriting practices to ensure that the income generated from the property is not the only source of repayment. Because future income is uncertain, sound underwriting policies generally require alternative sources of repayment. As with consumer lending, during this reporting period the frequency of specific risky underwriting practices decreased compared with the previous period.

Of the FDIC-supervised banks that were active in commercial real estate,

- Nine percent made loans without considering sources of repayment other than the project being funded "frequently enough to warrant notice" (down from 12 percent during the previous reporting period); and 2 percent made such loans "commonly or as standard procedure" (down from 3 percent previously).

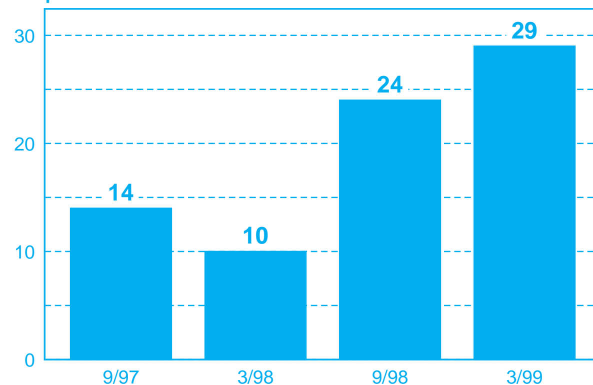


Proportion of FDIC-supervised banks making such loans either "frequently enough to warrant notice" or "commonly."

- Seven percent made interest-only, extended-amortization, or negative-amortization permanent commercial real estate loans "frequently enough to warrant notice" (unchanged from previously); and almost 0 percent made such loans "commonly or as standard procedure" (also unchanged).
- Thirteen percent made short-term commercial real estate loans with minimal amortization and large balloon payments "frequently enough to warrant notice," and 3 percent did so "commonly or as standard procedure." Both of these proportions were unchanged from previously.

Agricultural Loans

Examiners noted increases in FDIC-supervised banks' level of carryover debt during the reporting period. They also continued to monitor the extent to which banks' agricultural loan portfolios were tied to major crops affected by the Federal Agriculture Improvement and Reform Act of 1996.[4]



- Twenty-nine percent of the FDIC-supervised banks active in agricultural lending showed a "moderate" increase in the level of carryover debt (up from 24 percent during the previous reporting period), and 3 percent showed a "sharp" increase (up slightly from previously). Examiners occasionally commented about continued low crop and livestock prices that could translate into sharp increases in the level of future carryover debt.
- Twenty-three percent of the FDIC-supervised banks active in agricultural lending had portfolios tied to crops affected by the phaseouts "frequently enough to warrant notice" (down from 28 percent previously). And 18 percent were affected by the phaseouts "commonly or as standard procedure" (compared with 21 percent previously).

[4] In contrast to previous law, which allowed traditional subsidies tied to prices and limits on production, this law allowed declining payments to farmers until the year 2002 for certain crops.

A few examiners noted peanuts as one of the major crops affected.

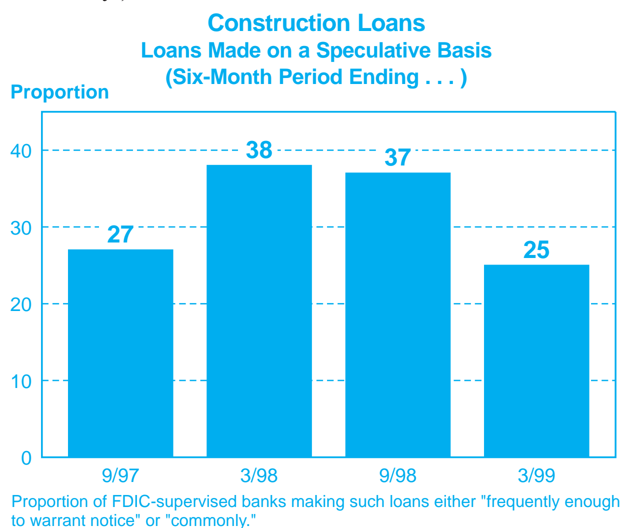
- Only 1 percent of the FDIC-supervised banks active in agricultural lending made loans on the basis of unrealistic cash flow projections "commonly or as standard procedure," down from 3 percent previously. However, examiners occasionally commented about the potential risk of a decline in cash flow caused by low commodity prices.
- Approximately 2 percent of the FDIC-supervised banks made agricultural loans on the basis of land values that cannot be supported by farm operations "commonly or as standard procedure." Eleven percent made such loans "frequently enough to warrant notice."

Construction Loans

During this reporting period the frequency of specific risky underwriting practices in construction lending decreased substantially compared with the previous period.

Of the FDIC-supervised banks active in construction lending,

- Nineteen percent funded speculative construction projects (that is, those unaccompanied by refinancing commitments) "frequently enough to warrant notice" (down from 30 percent during the previous reporting period); a little more than 5 percent did so "commonly or as standard procedure" (down from 7 percent previously).
- Further, 12 percent made construction loans without considering sources of repayment other than the project being funded "frequently enough to warrant notice." One percent did so "commonly or as standard procedure." (These proportions were down from 23 percent and 3 percent, respectively.)



Proportion of FDIC-supervised banks making such loans either "frequently enough to warrant notice" or "commonly."

- In addition, 11 percent required alternative sources of repayment but failed to verify the quality of these sources "frequently enough to warrant notice"; approximately 1 percent failed to verify the quality of these sources "commonly or as standard procedure." (These proportions were down from 14 percent and 2 percent, respectively.)
- Ten percent funded, or deferred, interest payments during the loan term "frequently enough to warrant notice" (down from 14 percent previously); an additional 6 percent did so "commonly or as standard procedure" (unchanged).
- Approximately 10 percent funded 100 percent of the cost of construction and land, with no cash equity on the part of the borrower/developer "frequently enough to warrant notice." Only 2 percent did so "commonly or as standard procedure."

Home Equity Loans

Of the FDIC-supervised banks active in home-equity lending,

- Five percent made home equity-loans that pushed mortgage indebtedness above 90 percent of collateral "frequently enough to warrant notice" (down from 12 percent previously), but 4 percent did so "commonly or as standard procedure" (up from 2 percent previously).
- Only 2 percent qualified borrowers for home equity-credit on the basis of initially discounted loan (teaser) rates "frequently enough to warrant notice," and none did so "commonly or as standard procedure." (Both of these proportions were unchanged from previously.)

Credit Card Loans

Of the FDIC-supervised banks active in credit card lending,

- Ninety-one percent had no changes in underwriting practices for new credit card loans since the previous examination (up from 89 percent during the previous reporting period).
- Approximately 1 percent had "substantially" loosened underwriting practices since the previous examination, none had "moderately" loosened them, 1 percent had "substantially" tightened them, and 7 percent had "moderately" tightened them. Previously, 9 percent had tightened and 2 percent had loosened.
- Only 1 percent had "high" risk in current underwriting practices; approximately 25 percent had "medium" risk, and 74 percent had "low" risk.
- None had "high" risk in their current loan portfolios; approximately 24 percent had "medium" risk, and 76 percent had "low" risk.

Results from the Report on Underwriting Practices

Percent of Respondents

		Weighted Six-Month Period Ending:				
		3/97	9/97	3/98	9/98	3/99
GENERAL UNDERWRITING PRACTICES						
Have the institution's underwriting practices materially changed since the last examination:	Yes	8.1%	9.0%	10.7%	11.7%	9.3%
	No	91.9	91.0	89.3	88.3	90.7
If practices have materially changed, are they:[1]	Substantially tighter	NA	NA	NA	NA	0.9
	Moderately tighter	5.3	4.8	4.4	5.4	4.2
	Moderately looser	2.8	4.2	6.4	6.3	3.1
	Substantially looser	NA	NA	NA	NA	1.0
How would you characterize the risk associated with loan growth and/or significant changes in lending activities since the last examination:	Low	NA	NA	NA	NA	55.2
	Medium	NA	NA	NA	NA	28.8
	High	NA	NA	NA	NA	3.9
	Not relevant	NA	NA	NA	NA	12.2
RISK IN CURRENT PRACTICES						
How would you characterize the potential risk associated with the institution's current UW practices:	Low	NA	NA	NA	NA	65.0
	Medium	NA	NA	NA	NA	31.7
	High	NA	NA	NA	NA	3.3
How would you characterize the potential credit risk of the institution's overall loan portfolio:	Low	NA	NA	NA	NA	66.4
	Medium	NA	NA	NA	NA	30.5
	High	NA	NA	NA	NA	3.1
How would you characterize the potential risk in underwriting practices associated with loan participations purchased by the institution:	Low	NA	NA	NA	NA	79.9
	Medium	NA	NA	NA	NA	19.3
	High	NA	NA	NA	NA	0.9
To what extent has recent lending been made in amounts that resulted in—or contributed to—concentrations of credit to one borrower or industry:	Never or infrequently	85.4	81.1	79.1	77.7	79.9
	Frequently enough to warrant notice	9.5	12.5	13.9	14.5	13.0
	Commonly or standard procedure	5.2	6.4	7.0	7.8	7.1
To what extent is the institution currently engaged in out-of-area financing:	Never or infrequently	NA	NA	NA	NA	89.1
	Frequently enough to warrant notice	NA	NA	NA	NA	8.4
	Commonly or standard procedure	NA	NA	NA	NA	2.5
How would you characterize the risk associated with loan administration:	Low	NA	NA	NA	NA	64.6
	Medium	NA	NA	NA	NA	30.7
	High	NA	NA	NA	NA	4.7
To what degree does the institution fail to adjust its loan pricing on different quality loans to reflect differences in risk:	Never or infrequently	69.8	68.3	72.1	73.0	89.4
	Frequently enough to warrant notice	26.1	26.6	23.4	22.3	8.0
	Commonly or standard procedure	4.2	5.1	4.6	4.7	2.6
To what extent does the institution fail to require a material principal reduction before renewing term loans:	Never or infrequently	58.6	60.9	63.1	62.5	76.3
	Frequently enough to warrant notice	35.4	33.9	31.3	32.7	20.2
	Commonly or standard procedure	5.9	5.2	5.6	4.8	3.6
To what extent does the institution's written lending policies differ from actual practices:	Never or infrequently	76.6	75.8	72.5	71.5	79.8
	Frequently enough to warrant notice	20.4	21.1	23.1	22.7	17.1
	Commonly or standard procedure	3.1	3.1	4.4	5.8	3.1
BUSINESS LOANS						
To what extent does the institution make business loans without a clear and reasonably predictable repayment source:	Never or infrequently	90.2	85.9	82.6	85.2	82.9
	Frequently enough to warrant notice	9.2	13.0	15.6	12.6	13.8
	Commonly or standard procedure	0.7	1.1	1.8	2.3	3.3
To what extent does the institution make business loans to borrowers who lack documented financial strength to support such lending:	Never or infrequently	89.0	79.8	76.7	78.6	81.0
	Frequently enough to warrant notice	10.3	18.8	20.6	18.9	16.6
	Commonly or standard procedure	0.7	1.4	2.7	2.5	2.3
With respect to asset-based business loans, to what extent does the institution fail to monitor collateral:	Never or infrequently	85.8	81.5	79.0	83.6	77.8
	Frequently enough to warrant notice	9.4	17.2	18.0	14.4	19.5
	Commonly or standard procedure	4.8	1.4	3.0	2.0	2.7
CONSTRUCTION LOANS						
To what extent is the institution funding construction projects on a speculative basis (i.e., without meaningful pre-sale, pre-lease or take-out commitments):	Never or infrequently	79.2	72.6	62.2	63.2	75.4
	Frequently enough to warrant notice	17.3	23.8	30.6	29.7	19.3
	Commonly or standard procedure	3.5	3.7	7.2	7.2	5.4
To what extent are construction loans made without consideration or repayment sources other than the project being funded:	Never or infrequently	89.3	81.3	76.4	74.3	87.3
	Frequently enough to warrant notice	10.0	16.1	18.7	22.6	11.6
	Commonly or standard procedure	0.7	2.5	5.0	3.1	1.1
When alternative repayment sources are required, to what extent does the institution fail to take appropriate steps to verify the quality of these sources:	Never or infrequently	91.0	84.0	79.1	83.6	87.9
	Frequently enough to warrant notice	7.6	13.8	16.7	14.1	11.3
	Commonly or standard procedure	1.4	2.2	4.1	2.2	0.8
To what extent does the institution fail to use realistic appraisal values relative to the current economic environment and/or to the performance observed on similar credits:	Never or infrequently	93.0	90.2	86.0	86.0	89.8
	Frequently enough to warrant notice	6.4	9.2	12.2	11.8	10.0
	Commonly or standard procedure	0.6	0.6	1.8	2.2	0.3
To what extent does the institution fund, or defer, interest payments during the term of its commercial construction loans:	Never or infrequently	89.2	85.7	80.3	79.8	84.1
	Frequently enough to warrant notice	5.9	10.6	13.9	14.4	10.0
	Commonly or standard procedure	4.9	3.7	5.8	5.9	5.9

[1] Before October 1, 1998, responses were either "tighter" or "looser."

Results from the Report on Underwriting Practices

Percent of Respondents

		Weighted Six-Month Period Ending: 3/97	9/97	3/98	9/98	3/99
CONSTRUCTION LOANS *(cont.)*						
To what extent does the institution fund 100% of the cost of construction and land, with no cash equity on the part of the borrower/developer:	Never or infrequently	NA	NA	NA	NA	88.4%
	Frequently enough to warrant notice	NA	NA	NA	NA	9.7
	Commonly or standard procedure	NA	NA	NA	NA	1.9
NONRESIDENTIAL LOANS						
To what extent are commercial real estate loans made without consideration of repayment sources other than the project being funded:	Never or infrequently	92.9	89.5	86.1	85.1	88.8
	Frequently enough to warrant notice	7.0	9.6	12.5	12.3	9.0
	Commonly or standard procedure	0.2	0.9	1.4	2.6	2.2
To what extent does the institution make interest-only, extended amortization, or negative amortization permanent commercial real estate loans:	Never or infrequently	95.8	93.6	93.0	92.8	93.3
	Frequently enough to warrant notice	3.6	6.1	6.3	7.2	6.5
	Commonly or standard procedure	0.5	0.2	0.7	0.0	0.1
To what extent does the institution make short-term commercial real estate loans ("Mini-perms") with minimal amortization terms and large "balloon" payments at maturity:	Never or infrequently	87.9	84.7	80.6	84.7	83.9
	Frequently enough to warrant notice	9.8	12.5	15.0	12.7	12.9
	Commonly or standard procedure	2.3	2.8	4.4	2.7	3.2
To what extent does the institution fail to use realistic appraisal values relative to the current economic environment and/or to the performance observed on similar credits:	Never or infrequently	95.3	91.8	90.0	89.6	92.1
	Frequently enough to warrant notice	4.3	7.5	9.2	9.9	7.7
	Commonly or standard procedure	0.4	0.7	0.8	0.6	0.1
HOME EQUITY LOANS						
To what extent does the institution make home equity loans that push mortgage indebtedness above 90 percent of collateral value:	Never or infrequently	92.7	88.0	88.1	86.8	91.3
	Frequently enough to warrant notice	5.0	7.9	9.9	11.5	5.2
	Commonly or standard procedure	2.3	4.1	2.0	1.7	3.5
To what extent does the institution qualify borrowers for home equity credit based on initially-discounted loan rates:	Never or infrequently	99.1	97.1	99.0	98.3	98.0
	Frequently enough to warrant notice	0.8	1.6	1.0	1.7	1.8
	Commonly or standard procedure	0.2	1.4	0.0	0.0	0.2
AGRICULTURAL LOANS						
To what extent does the institution make agricultural loans on the basis of land values that cannot be supported by farm operations:	Never or infrequently	NA	NA	NA	NA	87.7
	Frequently enough to warrant notice	NA	NA	NA	NA	10.6
	Commonly or standard procedure	NA	NA	NA	NA	1.7
To what extent is the institution's agricultural loan portfolio tied to major crops affected by the phase out of farm subsidies:	Never or infrequently	66.2	54.9	59.2	51.2	58.6
	Frequently enough to warrant notice	27.0	30.3	27.1	27.7	23.0
	Commonly or standard procedure	6.9	14.8	13.7	21.1	18.4
To what extent are agricultural loans being made based on unrealistic cash flow projections:	Never or infrequently	93.0	89.3	88.1	84.3	85.7
	Frequently enough to warrant notice	6.1	8.7	9.4	12.6	13.0
	Commonly or standard procedure	0.9	2.0	2.5	3.1	1.3
How would you characterize the change in the level of the institution's agricultural related carryover debt since the last examination:	Sharp decline	2.5	4.7	2.4	0.8	1.6
	Moderate decline	26.1	30.3	25.5	17.6	9.6
	No change	51.1	50.1	60.5	55.8	56.4
	Moderate increase	18.7	13.5	10.4	23.5	29.0
	Sharp increase	1.6	1.5	1.2	2.4	3.4
CONSUMER LOANS						
To what extent does the institution make "secured" consumer loans without adequate collateral protection:	Never or infrequently	86.4	82.4	83.0	82.6	86.5
	Frequently enough to warrant notice	11.6	14.7	14.2	13.5	10.9
	Commonly or standard procedure	2.0	3.0	2.8	3.9	2.6
To what extent does the institution make consumer loans to borrowers who lack demonstrable ability to repay:	Never or infrequently	85.8	82.3	78.9	79.5	83.6
	Frequently enough to warrant notice	12.9	15.6	18.0	16.0	13.9
	Commonly or standard procedure	1.3	2.2	3.1	4.5	2.5
CREDIT CARD LOANS						
Have the institution's underwriting practices for new credit card loans materially changed since the last examination:	Yes	10.2	17.9	15.7	10.9	9.2
	No	89.9	82.0	84.3	89.1	90.9
Are underwriting practices for new credit-cards:[1]	Substantially tighter	NA	NA	NA	NA	1.3
	Moderately tighter	7.6	14.0	13.7	9.4	7.2
	Moderately looser	2.6	3.9	2.0	1.5	0.0
	Substantially looser	NA	NA	NA	NA	0.7
How would you characterize the level of risk associated with the institution's current underwriting practices for new credit card loans:	Low	NA	NA	NA	NA	74.3
	Medium	NA	NA	NA	NA	24.8
	High	NA	NA	NA	NA	0.9
How would you characterize the level of risk associated with the institution's credit card portfolio:	Low	NA	NA	NA	NA	76.4
	Medium	NA	NA	NA	NA	23.6
	High	NA	NA	NA	NA	0.0
For credit card loans in the institution's portfolio with risk characterized as high, to what degree does the institution fail to adjust its loan pricing to account for this risk:	Never or infrequently	NA	NA	NA	NA	0.0
	Frequently enough to warrant notice	NA	NA	NA	NA	0.0
	Commonly or standard procedure	NA	NA	NA	NA	0.0

[1]Before October 1, 1998, responses were either "tighter" or "looser."

Characteristics of Banks Examined in the *Report on Underwriting Practices*

- Coverage: 958 FDIC-supervised banks.
- Period: Reports filed between October 1, 1998 and March 31, 1999.
- Charter types: state-chartered commercial banks, 89 percent; state-chartered savings banks, 11 percent; branches of foreign banks on U.S. soil, less than 1 percent (3 banks).
- Size distribution of banks: assets of $1 billion or greater, 5 percent; assets between $300 million and $1 billion, 11 percent; assets between $25 million and $300 million, 69 percent; assets less than $25 million, 16 percent.
- Proportion of all FDIC-supervised banks (as of December 31, 1998): 29 percent of assets and 16 percent of the number of banks.

The *Report on Underwriting Practices* Seeks

- To identify (1) material changes in underwriting practices, (2) overall risk in new lending practices, and (3) specific risks in underwriting practices for major loan categories.
- To track emerging issues in underwriting practices of new loans.
- To provide an early-warning mechanism for identifying potential problems.