Report on Underwriting Practices

Federal Deposit Insurance Corporation
Donna Tanoue, Chairman

OCTOBER 2000 THROUGH MARCH 2001

HIGHLIGHTS

For the six months ending March 31, 2001, the results showed the following changes in underwriting practices at FDIC-supervised banks, compared with the six months ending September 30, 2000:

- *Increases in the frequency of three risky underwriting practices for construction lending.* Examiners reported a larger proportion of banks that made: (1) speculative construction loans (those not accompanied by meaningful pre-sale, pre-lease or take-out commitments), (2) loans with deferred interest payments during the construction term, and (3) loans that funded 100 percent of the cost of construction and land, with no cash equity on the part of the borrower/developer.
- *Increases in the frequency of risky underwriting practices for consumer lending.* Examiners reported a larger proportion of banks that made: (1) loans to borrowers who lacked demonstrable ability to repay and (2) "secured" consumer loans without adequate collateral protection.
- *Less frequent occurrences of risky underwriting practices in the remaining major loan categories.* Examiners reported that the frequency of risky underwriting practices fell for business, commercial (nonresidential) real estate, agriculture, home equity, and credit card lending.
- *Decreases in risks and less frequent occurrences of most risky underwriting practices for general underwriting practices.* Examiners reported a smaller proportion of banks with high risk in current underwriting practices and in overall loan portfolios. They also reported a smaller proportion of banks that made loans in which the actual practices differed from written loan policies.

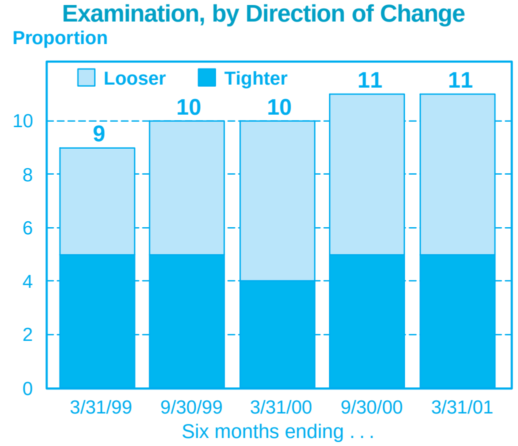
INTRODUCTION

At the end of each FDIC-supervised bank examination, the examiner in charge responds to a questionnaire on the bank's underwriting practices. This *Report on Underwriting Practices* covers the responses submitted during the six months beginning October 1, 2000, and ending March 31, 2001. The number of responses received during this six months was 1,181—which represents approximately 21 percent of the number and 29 percent of the assets of all FDIC-supervised banks. The results reported here refer to weighted responses and are *estimates* of the underwriting practices of all FDIC-supervised banks. An explanation of the use of weights appears in "Purpose and Design of the Report." All weighted responses appear in the table at the end of this *Report*. Throughout the *Report*, the response rates have been rounded to the nearest 1 percent for ease of exposition.

GENERAL UNDERWRITING TRENDS

During the six months ending March 31, 2001, examiners indicated that 6 percent of FDIC-supervised banks had loosened their underwriting practices since the previous examination and 5 percent had tightened them. These percentages were the same as during the previous six months. As a result, about 12 percent[1] showed a material change in underwriting practices since the previous examination—also the same as previously (which had been the largest percentage since March 31, 1998).

Proportion of FDIC-Supervised Banks That Materially Changed Underwriting Practices since the Previous Examination, by Direction of Change



Note: May not add to the proportion that materially changed underwriting practices because of rounding.

In general, banks that were reported to have loosened their underwriting practices showed greater levels of risk than banks that were reported to have tightened them. Likewise, banks that loosened their underwriting practices since the previous examination also showed more frequent occurrences of risky underwriting practices than the group that tightened underwriting practices.

[1]The proportion of FDIC-supervised banks that materially changed underwriting practices since the previous examination equaled 12 percent. The proportion that had tightened underwriting practices plus the proportion that had loosened do not add to the total proportion that changed underwriting practices because of rounding.

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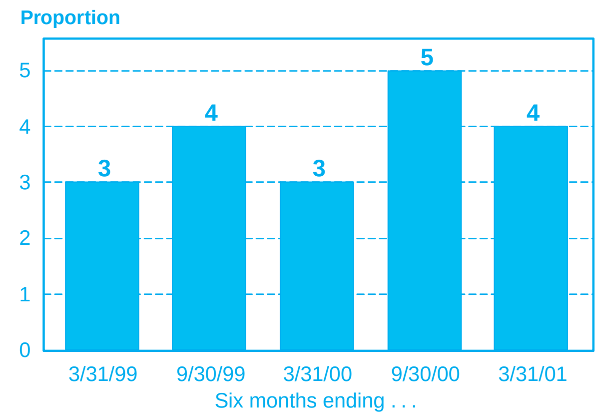
The main reasons for the loosening of underwriting practices (according to examiners) were competition and/or growth goals; the main reasons for the tightening were a need to respond to regulatory observations and/or a change in management.

During the six months ending March 31, 2001, the proportion of banks with "high" risk associated with the institution's current underwriting practices decreased slightly, from 5 percent to 4 percent.

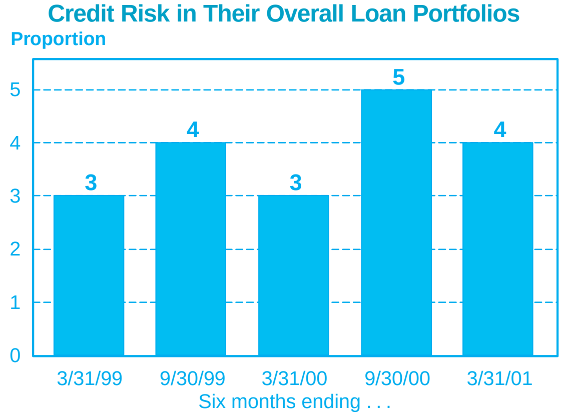
Proportion of FDIC-Supervised Banks with "High" Risk Associated with Current Underwriting Practices



Examiners commented about the following deficiencies in institutions with "high" risk in underwriting practices: (1) weak underwriting standards in general, (2) inadequate loan policies, (3) inadequate loan documentation, (4) inadequate financial analyses, and (5) poor management.

The proportion of banks with "high" potential credit risk in their loan portfolios also decreased from 5 percent to 4 percent.

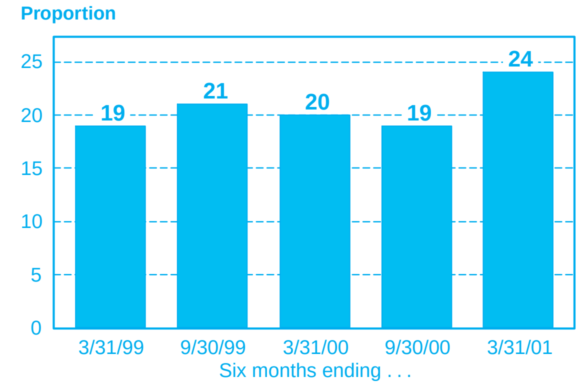
Proportion of FDIC-Supervised Banks with "High" Credit Risk in Their Overall Loan Portfolios



Although the proportion of banks with "high" risk associated with purchased loan participations remained the same (2 percent), examiners reported an increase in the proportion with "medium" risk—from 19 percent to 24 percent. Examiners noted that one reason for the increased risk was inadequate loan documentation.

The proportion of banks that engaged in out-of-area lending either "frequently enough to warrant notice" (hereinafter, "frequently") or "commonly or as standard procedure" (hereinafter, "commonly") also increased from the previous six months, but only slightly (from 14 percent to 15 percent).

Proportion of FDIC-Supervised Banks with "Medium" Risk Associated with Loan Participations Purchased



Other changes for FDIC-supervised banks during the six months ending March 31, 2001, compared with the six months ending September 30, 2000, included decreases in the proportions of banks in the following categories:

- Those with "high" risk associated with loan growth and/or with significant changes in lending activities (from 5 percent to 3 percent)
- Those that either "frequently" or "commonly" made loans in amounts that resulted in—or contributed to—concentrations of credit to one borrower or industry (from 23 percent to 21 percent)
- Those that either "frequently" or "commonly" made loans with actual lending practices that differed from written loan policies (from 26 percent to 22 percent).

Of the 1,181 banks examined, 218 (19 percent) used a credit scoring model for credit decisions; the model was used most frequently (118 banks) for consumer installment lending. Eighteen percent used a credit scoring model during the six months ending September 30, 2000.

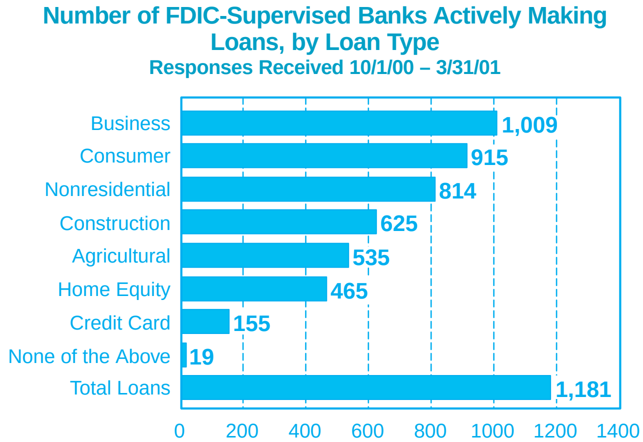
INDIVIDUAL LOAN CATEGORIES

During the six months ending March 31, 2001, of the 1,181 banks examined, 1,009 were active in business lending, 915 in consumer lending (excluding credit cards), and 814 in commercial (nonresidential) real estate lending. Nineteen banks were not active in any of the major loan categories covered. The accompanying chart shows the number of banks for each major loan category.

Examiners are also asked to report activity in any other loan category not listed in the chart above.[2] Only 266 banks examined had activity in additional loan categories, with the largest number (130) having dealer paper loans.

During the six months ending March 31, 2001, examiners reported increases in the frequency of risky underwriting practices for both construction and consumer lending. In the remaining major loan categories covered in the ques-

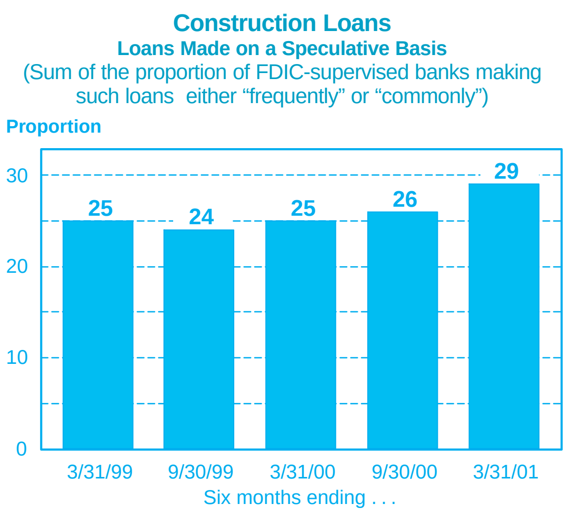
[2] The section "Purpose and Design of the Report" lists additional loan categories.



tionnaire, however, examiners reported less frequent occurrences of risky underwriting practices compared with the six months ending September 30, 2000.

Construction Loans

For banks active in making construction loans, the frequency of three risky underwriting practices increased during the six months ending March 31, 2001, compared with the previous six-month period. The proportion of banks that either "frequently" or "commonly" made speculative construction loans (that is, projects without meaningful presale, pre-lease or take-out commitments) rose from 26 percent to 29 percent.

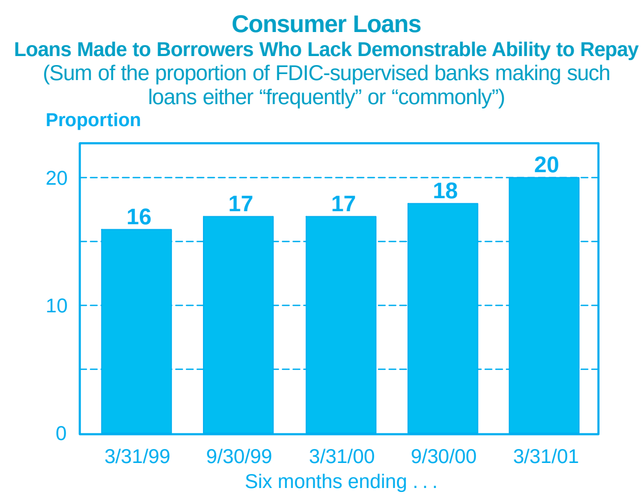


In addition, the proportion of banks that either "frequently" or "commonly" funded, or deferred, interest payments during the terms of their commercial construction loans rose—from 15 percent to 17 percent. All the increase was a result of the rise (from 5 percent to 8 percent) in the proportion doing so "commonly." (The proportion doing so "frequently" decreased from 10 percent to 9 percent.) And the proportion of banks that either "frequently" or "commonly" funded 100 percent of the cost of construction and land, with no cash equity on the part of the borrower/developer, increased slightly, from 12 percent to 13 percent. However, the percentage doing so "commonly" increased from 1 percent to 4 percent. (The percentage doing so "frequently" decreased from 11 percent to 8 percent.)

In contrast, for the banks that either "frequently" or "commonly" made construction loans, the frequency of risky practices for the following underwriting practices remained the same: (1) making construction loans without consideration of repayment sources other than the project being funded—13 percent during both periods; (2) failing to take appropriate steps to verify the quality of alternative repayment sources when such sources are required—also 13 percent during both periods; and (3) failing to use realistic appraisal values relative to the current economic environment and/or to the performance observed on similar credits—12 percent during both periods.

Consumer Loans (Excluding Credit Card Lending)

For FDIC-supervised banks active in consumer lending (excluding credit card loans), the proportion of banks that either "frequently" or "commonly" made loans to borrowers who lack demonstrable ability to repay increased from 18 percent to 20 percent during the six months ending March 31, 2001.

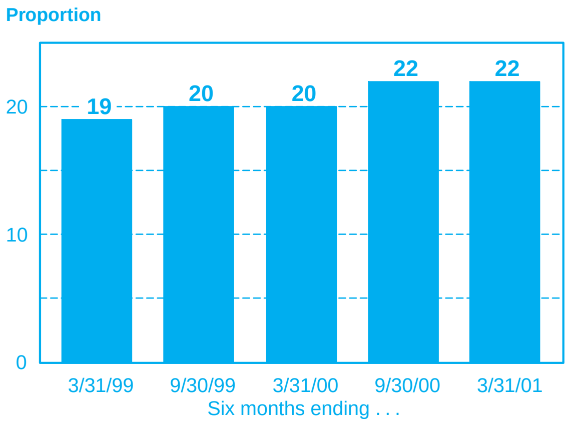


And the proportion of banks that either "frequently" or "commonly" made "secured" consumer loans without adequate collateral protection increased slightly, from 14 percent to 15 percent. All the increase was in the proportion that did so "frequently."

Business Loans

The frequency of specific risky underwriting practices in business lending changed slightly during the six months ending March 31, 2001, compared with the six months ending September 30, 2000. The proportion of FDIC-supervised banks that either "frequently" or "commonly" made business loans to borrowers who lacked documented financial strength to support such lending remained the same at 22 percent.

Business Loans
Loans Made to Borrowers Who Lacked Documented Financial Strength to Support Such Lending
(Sum of the proportion of FDIC-supervised banks making such loans either "frequently" or "commonly")



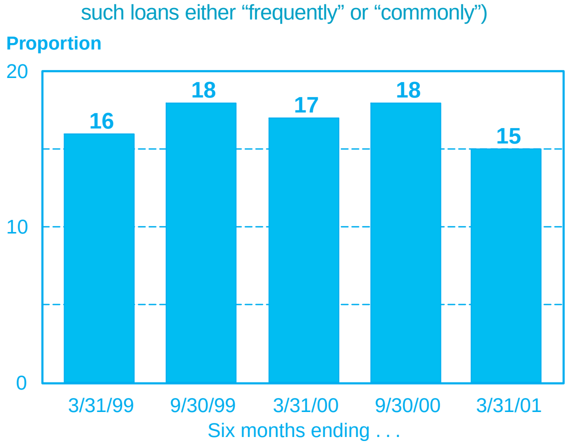
The proportion that either "frequently" or "commonly" made business loans without a clear and reasonably predictable repayment source declined slightly, from 15 percent to 14 percent, and the proportion that either "frequently" or "commonly" failed to monitor the collateral pledged on asset-based loans (a subset of business lending) also decreased slightly, from 21 percent to 20 percent.

Commercial (Nonresidential) Real Estate Loans

For commercial (nonresidential) real estate lending, the frequency of specific risky underwriting practices declined compared with the previous six months. Of the FDIC-supervised banks actively making such loans, 15 percent either "frequently" or "commonly" made short-term commercial real estate loans with minimal amortization terms and large "balloon" payments at maturity, down from 18 percent previously.

Ten percent (down from 12 percent) either "frequently" or "commonly" made commercial real estate loans without consideration of repayment sources other than the project being funded; 9 percent (down from 11 percent) either "frequently" or "commonly" made loans without using realistic appraisal values relative to the current economic environment and/or to the performance observed on similar credits; and 6 percent (down from 8 percent) either "frequently" or "commonly" made interest-only, extended-amortization, or negative-amortization permanent commercial real estate loans.

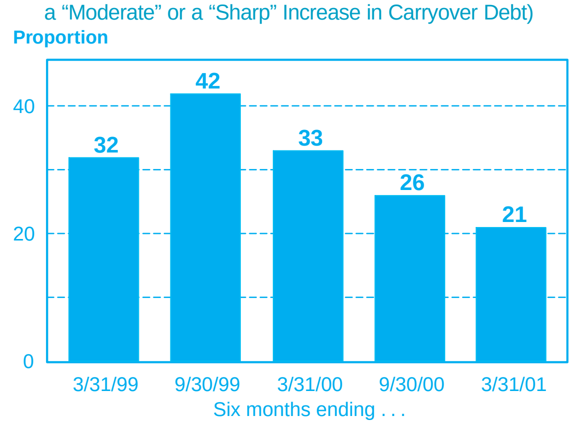
Commercial (Nonresidential) Real Estate
Loans Made with Minimal Amortization Terms and Large "Balloon" Payments at Maturity
(Sum of the proportion of FDIC-supervised banks making such loans either "frequently" or "commonly")



Agricultural Loans

For FDIC-supervised banks active in agricultural lending, for the third consecutive six-month period examiners reported a decrease in the proportion having a "moderate" or a "sharp" increase in the bank's level of carryover debt. The decrease this period was from 26 percent to 21 percent.

Agricultural Loans
(Sum of the proportion of FDIC-Supervised Banks Having a "Moderate" or a "Sharp" Increase in Carryover Debt)



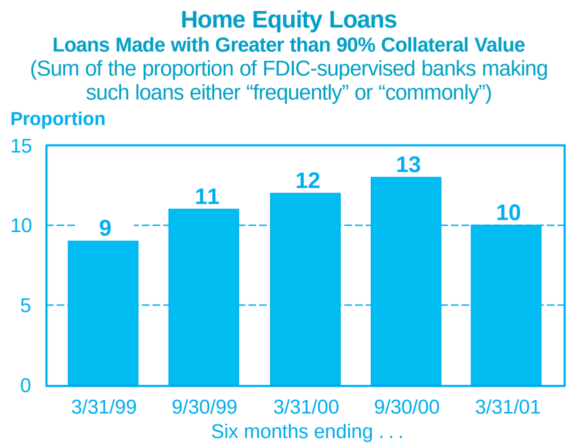
In general, examiners noted slight or no changes in the frequency of risky practices for agricultural lending at FDIC-supervised banks that were actively making agricultural loans. For example, 10 percent (down from 13 percent) either "frequently" or "commonly" made agricultural loans on the basis of land values that cannot be supported by farm operations. Forty-four percent (unchanged) either "frequently" or "commonly" had portfolios tied to crops affected by the Federal Agricultural Improvement and Reform Act of 1996.[3] And 11 percent (unchanged) either "frequently" or "commonly" made agricultural loans on the basis of unrealistic cash flow projections.

Home Equity Loans

Of the FDIC-supervised banks that were active in home equity lending, a smaller proportion were making home equity loans that pushed mortgage indebtedness above 90 percent of collateral value. Specifically, 10 percent either "frequently" or "commonly" made such loans compared with 13 percent previously.

One percent of banks (down from 3 percent) either "frequently" or "commonly" qualified borrowers for home equity credit on the basis of initially discounted (teaser) loan rates.

[3] 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.



Credit Card Loans

Few FDIC-supervised banks were making new credit card loans. One percent of banks active in new credit card lending (unchanged) had "high" risk in current underwriting practices for new credit card loans. Three percent (up slightly from 2 percent) had "high" risk associated with the bank's credit card portfolio. Examiners were concerned with the level of subprime credit card lending at these banks.

Purpose and Design of the Report

In early 1995, the FDIC began to require that a supplementary examination questionnaire on current underwriting practices at FDIC-supervised banks be filled out at the end of each FDIC-supervised bank examination. 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 (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 (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 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."[4] New questions about underwriting practices were also added to the questionnaire. Examiners continue to classify the frequency of specific risky underwriting practices as "never or infrequently," "frequently enough to warrant notice," or, if the risky practice is used more often, "commonly or as standard procedure."[5]

The questionnaire is completed at the end 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 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, and the latter do not fill out 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.[6] Although these weightings cannot remove all potential bias, they do 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 the nation. 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.

[4] **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.

[5] **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.

[6] Anyone who wishes more information about the weights should contact Virginia Olin, DRS, 202/898-8711.

RESULTS FROM THE REPORT ON UNDERWRITING PRACTICES

Percent of Respondents

		(Weighted) Six-Month Period Ending: 3/99	9/99	3/00	9/00	3/01
GENERAL UNDERWRITING PRACTICES						
Have the institution's underwriting practices materially changed since the last examination:	Yes	9.3	10.6	9.8	11.6	11.6
	No	90.7	89.4	90.3	88.4	88.4
If practices have materially changed, are they:[1]	Substantially tighter	0.9	1.1	1.1	1.4	1.2
	Moderately tighter	4.3	4.1	3.1	3.6	3.9
	Moderately looser	3.1	4.3	4.4	4.7	5.2
	Substantially looser	1.0	1.1	1.1	1.8	1.2
How would you characterize the risk associated with loan growth and/or significant changes in lending activities since the last examination:	Low	55.1	54.3	55.4	52.5	51.3
	Medium	28.8	28.9	28.6	29.3	31.2
	High	3.9	4.1	2.3	4.8	3.3
	Insignificant	12.2	12.7	13.8	13.4	14.2
RISK IN CURRENT PRACTICES						
How would you characterize the potential risk associated with the institution's current UW practices:	Low	65.0	66.4	67.7	65.3	64.7
	Medium	31.8	29.9	29.7	30.2	31.2
	High	3.3	3.7	2.7	4.6	4.2
How would you characterize the potential credit risk of the institution's overall loan portfolio:	Low	66.5	66.7	68.3	66.1	65.6
	Medium	30.4	29.0	29.0	29.1	30.1
	High	3.1	4.3	2.7	4.7	4.3
How would you characterize the potential risk in underwriting practices associated with loan participations purchased by the institution:	Low	79.7	77.4	78.4	78.8	74.5
	Medium	19.4	21.1	20.2	19.2	23.6
	High	0.8	1.6	1.3	2.1	2.0
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	80.0	78.6	79.5	77.0	79.4
	Frequently enough to warrant notice	12.9	13.9	14.1	16.3	14.3
	Commonly or standard procedure	7.1	7.5	6.4	6.7	6.4
To what extent is the institution currently engaged in out-of-area financing:	Never or infrequently	89.2	87.1	88.2	85.9	84.6
	Frequently enough to warrant notice	8.3	9.8	9.5	11.3	12.7
	Commonly or standard procedure	2.5	3.1	2.4	2.9	2.7
How would you characterize the risk associated with loan administration:	Low	64.5	63.1	65.5	62.1	63.4
	Medium	30.8	31.6	31.2	32.3	31.0
	High	4.7	5.3	3.4	5.6	5.6
To what degree does the institution fail to adjust its loan pricing on different quality loans to reflect differences in risk:[2]	Never or infrequently	89.4	86.2	87.8	87.6	87.6
	Frequently enough to warrant notice	8.1	11.4	10.5	10.2	10.0
	Commonly or standard procedure	2.6	2.5	1.8	2.3	2.4
To what extent does the institution fail to require a material principal reduction before renewing term loans:[2]	Never or infrequently	76.2	75.7	76.7	77.4	78.6
	Frequently enough to warrant notice	20.2	20.9	20.8	19.3	18.8
	Commonly or standard procedure	3.6	3.4	2.5	3.3	2.7
To what extent do the institution's written lending policies differ from actual practices:	Never or infrequently	79.8	77.5	78.1	74.1	77.6
	Frequently enough to warrant notice	17.1	19.4	19.0	22.2	18.7
	Commonly or standard procedure	3.1	3.1	2.9	3.7	3.7
BUSINESS LOANS						
To what extent does the institution make business loans without a clear and reasonably predictable repayment source:	Never or infrequently	82.9	84.1	85.1	85.1	86.4
	Frequently enough to warrant notice	13.8	13.8	13.5	13.8	12.4
	Commonly or standard procedure	3.3	2.0	1.4	1.1	1.2
To what extent does the institution make business loans to borrowers who lack documented financial strength to support such lending:	Never or infrequently	81.0	80.4	79.9	77.9	78.4
	Frequently enough to warrant notice	16.6	17.8	18.6	20.2	19.8
	Commonly or standard procedure	2.3	1.8	1.6	1.9	1.8
With respect to asset-based business loans, to what extent does the institution fail to monitor collateral:	Never or infrequently	77.7	78.6	80.6	79.2	80.0
	Frequently enough to warrant notice	19.5	19.0	17.3	19.4	16.8
	Commonly or standard procedure	2.7	2.4	2.2	1.4	3.2
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	75.2	76.1	75.2	73.6	70.7
	Frequently enough to warrant notice	19.4	20.1	20.4	21.9	23.1
	Commonly or standard procedure	5.4	3.9	4.4	4.5	6.2
To what extent are construction loans made without consideration of repayment sources other than the project being funded:	Never or infrequently	87.3	88.1	88.0	87.4	86.7
	Frequently enough to warrant notice	11.6	10.5	10.5	10.7	10.8
	Commonly or standard procedure	1.1	1.5	1.4	2.0	2.5
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	88.0	87.9	87.7	87.5	87.4
	Frequently enough to warrant notice	11.3	9.5	11.1	10.6	10.5
	Commonly or standard procedure	0.8	2.5	1.1	1.9	2.1
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	89.8	87.9	89.5	87.7	88.3
	Frequently enough to warrant notice	9.9	11.2	9.6	10.8	10.6
	Commonly or standard procedure	0.3	0.9	0.9	1.5	1.1
To what extent does the institution fund, or defer, interest payments during the term of its commercial construction loans:	Never or infrequently	83.9	87.1	86.0	85.2	83.5
	Frequently enough to warrant notice	10.2	9.7	7.9	9.6	8.8
	Commonly or standard procedure	5.9	3.2	6.1	5.2	7.8

[1] Prior to October 1, 1998, responses were either "tighter" or "looser."
[2] Prior to October 1998, responses were "rarely", "to some degree", or "commonly."

RESULTS FROM THE REPORT ON UNDERWRITING PRACTICES

Percent of Respondents

		Weighted Six-Month Period Ending: 3/99	9/99	3/00	9/00	3/01
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	88.4	88.8	88.8	87.7	87.5
	Frequently enough to warrant notice	9.7	10.8	9.7	11.0	8.8
	Commonly or standard procedure	1.9	0.4	1.6	1.4	3.8
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	88.9	87.7	88.7	87.7	90.3
	Frequently enough to warrant notice	8.9	10.5	10.2	10.6	8.2
	Commonly or standard procedure	2.2	1.8	1.1	1.7	1.5
To what extent does the institution make interest-only, extended amortization, or negative amortization permanent commercial real estate loans:	Never or infrequently	93.4	93.4	92.7	92.5	94.0
	Frequently enough to warrant notice	6.5	5.9	6.9	6.8	5.1
	Commonly or standard procedure	0.1	0.7	0.5	0.7	0.9
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	83.9	81.8	83.0	82.2	84.8
	Frequently enough to warrant notice	12.9	15.3	13.9	15.0	11.4
	Commonly or standard procedure	3.2	2.9	3.1	2.9	3.8
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	92.1	90.1	91.4	88.7	90.9
	Frequently enough to warrant notice	7.7	9.5	8.2	10.1	8.5
	Commonly or standard procedure	0.1	0.4	0.4	1.2	0.6
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	91.0	89.3	88.3	86.6	90.5
	Frequently enough to warrant notice	5.5	9.3	9.2	9.9	7.7
	Commonly or standard procedure	3.5	1.4	2.5	3.5	1.8
To what extent does the institution qualify borrowers for home equity credit based on initially-discounted loan rates:	Never or infrequently	98.0	98.1	99.0	97.3	98.7
	Frequently enough to warrant notice	1.8	1.3	0.4	2.1	1.1
	Commonly or standard procedure	0.2	0.5	0.6	0.7	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	87.8	86.0	85.7	87.3	90.1
	Frequently enough to warrant notice	10.6	11.9	13.1	11.6	8.0
	Commonly or standard procedure	1.7	2.1	1.2	1.1	2.0
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	58.6	55.0	54.6	55.6	55.9
	Frequently enough to warrant notice	23.0	22.8	24.7	23.0	20.3
	Commonly or standard procedure	18.4	22.2	20.7	21.4	23.8
To what extent are agricultural loans being made based on unrealistic cash flow projections:	Never or infrequently	85.7	84.5	86.3	89.5	88.8
	Frequently enough to warrant notice	13.0	14.3	12.2	9.8	9.8
	Commonly or standard procedure	1.3	1.2	1.5	0.7	1.4
How would you characterize the change in the level of the institution’s agricultural related carryover debt since the last examination:	Sharp decline	1.6	2.0	3.1	1.9	1.6
	Moderate decline	9.6	7.0	11.3	13.7	14.0
	No change	56.4	48.7	52.7	58.4	63.4
	Moderate increase	29.0	37.2	31.0	25.1	19.7
	Sharp increase	3.4	5.1	2.0	1.0	1.3
CONSUMER LOANS						
To what extent does the institution make ‘secured’ consumer loans without adequate collateral protection:	Never or infrequently	86.5	85.0	85.7	86.3	85.4
	Frequently enough to warrant notice	10.9	13.1	12.1	11.9	13.1
	Commonly or standard procedure	2.6	1.9	2.2	1.8	1.6
To what extent does the institution make consumer loans to borrowers who lack demonstrable ability to repay:	Never or infrequently	83.7	83.3	83.1	82.4	80.0
	Frequently enough to warrant notice	13.9	14.7	14.4	15.4	17.5
	Commonly or standard procedure	2.5	2.0	2.5	2.2	2.4
CREDIT CARD LOANS						
Have the institution’s underwriting practices for new credit card loans materially changed since the last examination:	Yes	9.2	6.4	2.1	2.1	2.5
	No	90.9	93.6	97.9	97.9	97.5
Are underwriting practices for new credit cards:[1]	Substantially tighter	1.3	0.8	0.7	1.2	1.4
	Moderately tighter	7.2	3.3	0.5	0.5	1.1
	Moderately looser	0.0	1.5	1.0	0.0	0.0
	Substantially looser	0.7	0.9	0.0	0.3	0.0
How would you characterize the level of risk associated with the institution’s current underwriting practices for new credit card loans:	Low	74.4	72.6	80.1	78.5	77.7
	Medium	24.7	24.2	18.5	20.0	21.5
	High	0.9	3.2	1.4	1.5	0.9
How would you characterize the level of risk associated with the institution’s credit card portfolio:	Low	76.5	74.4	79.5	78.3	75.5
	Medium	23.5	22.5	19.7	19.8	21.9
	High	0.0	3.1	0.9	1.8	2.7
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	0.0	84.4	100.0	60.0	74.7
	Frequently enough to warrant notice	0.0	15.6	0.0	40.0	0.0
	Commonly or standard procedure	0.0	0.0	0.0	0.0	25.3

[1] Prior to October 1, 1998, responses were either “tighter” or “looser.”

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

- Coverage: 1,181 FDIC-supervised banks.
- Period: Reports filed between October 1, 2000, and March 31, 2001.
- Charter types: 100 percent of the examined banks during this period were state-chartered commercial banks.
- Size distribution of banks: assets of $1 billion or greater, 4 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.

The *Report on Underwriting Practices* Seeks

- To identify 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.