Report on Underwriting Practices

Federal Deposit Insurance Corporation

Donald E. Powell, Chairman

OCTOBER 2001 THROUGH MARCH 2002

HIGHLIGHTS

For the six months ending March 31, 2002, compared with the six months ending September 30, 2001, examiners noted the following changes in underwriting practices at FDIC-supervised banks:

- *Increases in risks associated with current underwriting practices and with purchased loan participations.*
- *Increases in risks associated with loan administration and in the potential credit risk in institutions' loan portfolios.*
- *A substantial increase in the occurrence of institutions that funded, or deferred, interest payments during the term of the commercial construction loans.*
- *A substantial increase in the occurrence of institutions that made short-term commercial real estate loans with minimal amortization terms and large "balloon" payments at maturity.*

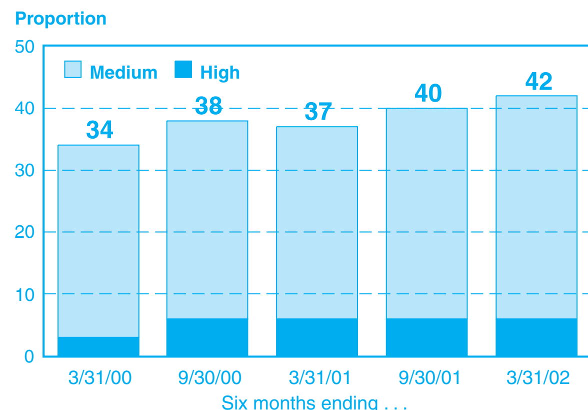
INTRODUCTION

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, 2001, and ending March 31, 2002. The number of responses received during this six months was 1,149—which represents approximately 21 percent of the number and 21 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*," and all weighted responses appear in the table at the end of this document. For ease of exposition, the response rates throughout have been rounded to the nearest 1 percent.

GENERAL UNDERWRITING TRENDS

During the six months ending March 31, 2002, compared with the six months ending September 30, 2001, risks associated with general underwriting practices increased. For example, the proportion of banks with high risk associated with current underwriting practices rose from 5 percent to 6 percent, and the proportion with medium risk rose from 32 percent to 34 percent. The proportion of banks with medium risk associated with underwriting practices for purchased loan participations increased from 22 percent to 26 percent. And the risk associated with loan growth and/or significant changes in lending activities since the previous examination also increased: the proportion of banks with high risk rose from 4 percent to 5 percent.

Risks associated with loan administration and the potential credit risk in institutions' loan portfolios also increased. The proportion of banks with medium risk in loan administration rose from 34 percent to 36 percent, while the proportion of banks with medium potential credit risk in their loan portfolios rose from 32 percent to 34 percent. (The proportions of banks with high risk for each was unchanged during both periods.)

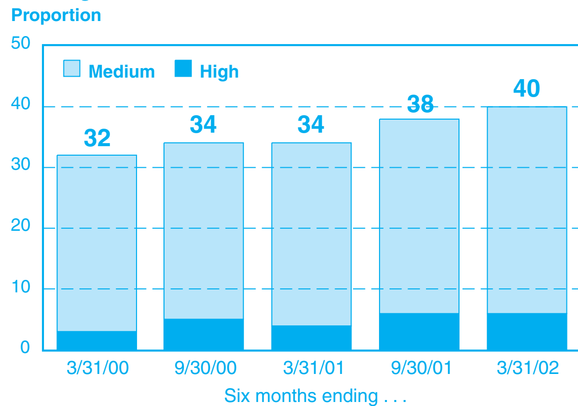


Division of Research and Statistics
Virginia Olin (202) 898-8711
Internet address: World Wide Web, www.fdic.gov

FDIC

Division of Supervision
Robert W. Walsh (202) 898-6911

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



During the six months ending March 31, 2002, examiners commented about the increases in banks' loan portfolios of adverse loan classifications, past due and non-accrual status, technical exceptions, and other troubled loans. They were also concerned with consistently inadequate underwriting standards in some banks and loans made to borrowers without adequate cash flow, proper financial and/or credit analyses, and without a clear and reasonably predictable repayment source.

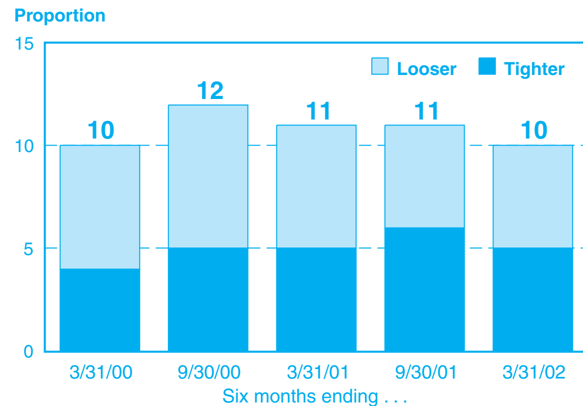
These concerns reflected the uptick in some occurrences of risky underwriting practices, both in general and by loan type. For example, the proportion of banks that either "frequently enough to warrant notice" (hereinafter, "frequently") or "commonly or as standard procedure" (hereinafter, "commonly") made loans in which the institution failed to adjust loan pricing on different-quality loans to reflect differences in risk increased from 10 percent to 13 percent; and the proportion of banks that either "frequently" or "commonly" made loans that failed to require a material principal reduction before renewing term loans rose from 24 percent to 25 percent.

During the six months ending March 31, 2002, examiners indicated that 9 percent of FDIC-supervised banks showed a material change in underwriting practices since the previous examination: 5 percent had tightened their underwriting practices and 5 percent had loosened them.[1] During the previous six months, the corresponding proportions were 6 percent and 5 percent.

According to examiners, the main reasons for the loosening of underwriting practices 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.

[1] Because of rounding, the sum of these two percentages may not add up to the proportion that materially changed underwriting practices.

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

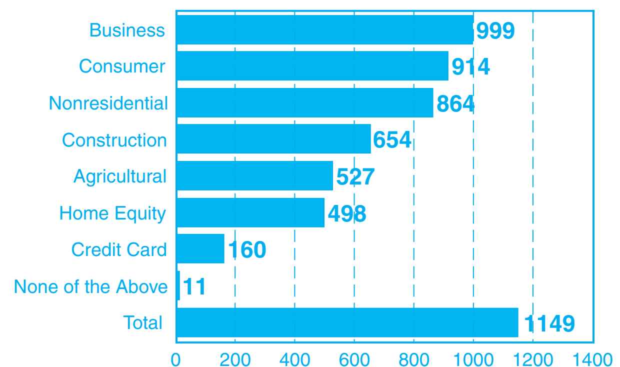


Note: Because of rounding, the sum of the two percentages may not add up to the proportion that materially changed underwriting practices.

INDIVIDUAL LOAN CATEGORIES

Of the 1,149 banks examined during the six months ending March 31, 2002, 999 were active in business lending, 914 in consumer lending (excluding credit cards), and 864 in commercial (nonresidential) real estate lending. Eleven 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.

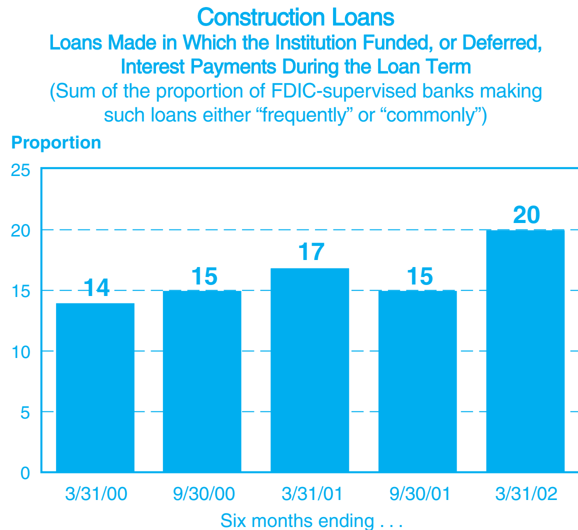
Number of FDIC-Supervised Banks Actively Making Loans, by Loan Type
Responses Received 10/1/01–3/31/02



During the period covered by the report, increases in the frequency of two risky underwriting practices—one in construction lending and one in commercial (nonresidential) real estate lending—were noteworthy. One of the two risky practices was funding, or deferring, interest payments during the terms of construction loans; the other was making short-term commercial real estate loans with minimal amortization terms and large "balloon" payments at maturity. In all major lending categories, the frequency of risky practices in general rose slightly.

Construction Loans

As just noted, for banks active in making construction loans during the period covered, the increase in the frequency of one risky practice was noteworthy; the proportion of banks that either "frequently" or "commonly" funded, or deferred, interest payments during the terms of their commercial construction loans jumped from 15 percent to 20 percent.



In addition, 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 inched upward, from 12 percent to 13 percent.

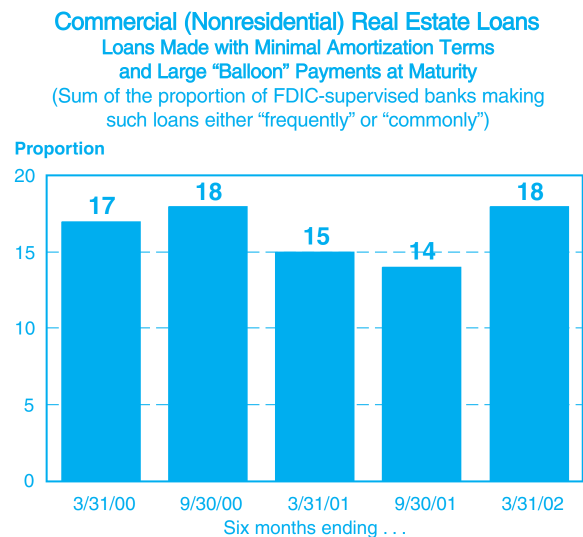
In contrast, the proportion of banks that either "frequently" or "commonly" made construction loans without consideration of repayment sources other than the project being funded inched downward, from 13 percent to 12 percent.

The proportion of banks that either "frequently" or "commonly" failed to use realistic appraisal values relative to the current economic environment and/or to the performance observed on similar credits remained the same—12 percent. Likewise, the proportion that either "frequently" or "commonly" failed to take appropriate steps to verify the quality of alternative repayment sources when such sources are required remained the same—13 percent.

During the reporting period, the survey was revised to separate speculative *residential* construction lending (that is, projects without meaningful pre-sale, pre-lease, or take-out commitments) from speculative *commercial* construction lending. Twenty-seven percent of banks either "frequently" or "commonly" made speculative *residential* construction loans, and 13 percent "frequently" or "commonly" made speculative *commercial* construction loans.

Commercial (Nonresidential) Real Estate Loans

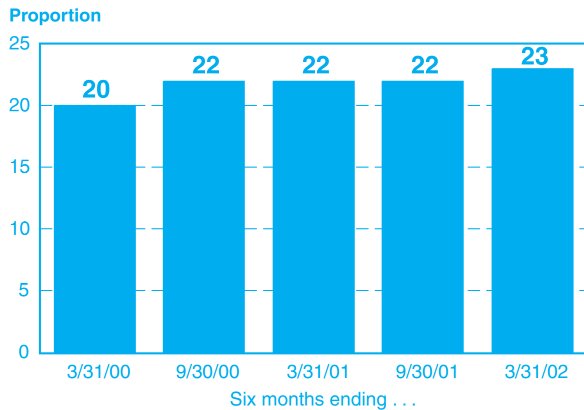
For commercial (nonresidential) real estate lending, occurrences of specific risky underwriting practices rose compared with the previous six months. Of the FDIC-supervised banks actively making such loans, 18 percent either "frequently" or "commonly" made short-term commercial real estate loans with minimal amortization terms and large "balloon" payments at maturity, up from 14 percent previously. This increase, combined with the increase in the proportion of banks that funded, or deferred, interest payments during the term of the commercial construction loan indicates a longer construction period, as demand for such structures waned and prospective tenants delayed occupancy.



The proportion of banks that either "frequently" or "commonly" made commercial real estate loans without consideration of repayment sources other than the project being funded rose from 10 percent to 11 percent; the proportion that 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 rose from 9 percent to 11 percent; and the proportion that either "frequently" or "commonly" made interest-only, extended-amortization, or negative-amortization permanent commercial real estate loans rose from 7 percent to 8 percent.

Business Loans

The frequency of risky underwriting practices in business lending increased, but only slightly, during the six months ending March 31, 2002, compared with the six months ending September 30, 2001. The proportion of banks that either "frequently" or "commonly" made

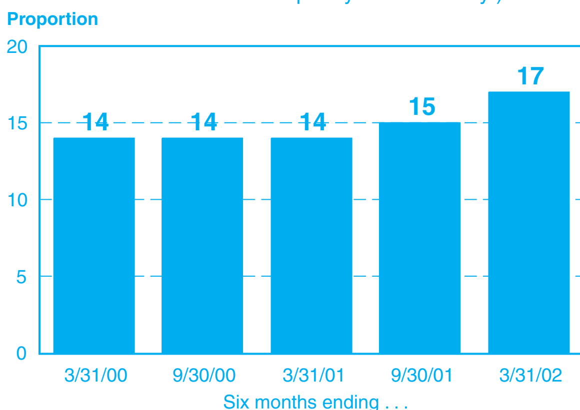


business loans to borrowers who lacked documented financial strength to support such lending rose from 22 percent to 23 percent.

The proportion of banks that made asset-based business loans (a subset of business lending) and either "frequently" or "commonly" failed to monitor the collateral pledged rose from 23 percent to 24 percent. But the proportion that either "frequently" or "commonly" made business loans without a clear and reasonably predictable repayment source dipped slightly, from 16 percent to 15 percent.

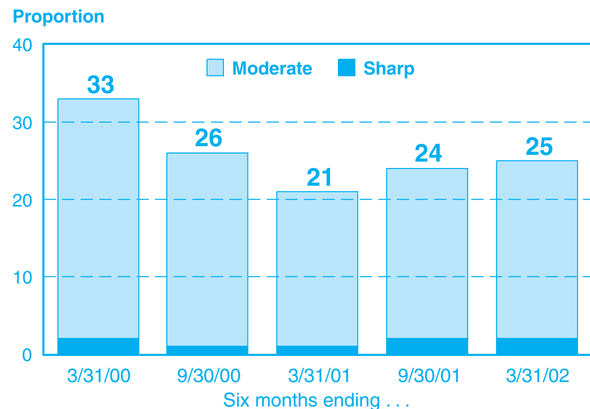
Consumer Loans (Excluding Credit Card Lending)

For FDIC-supervised banks active in consumer lending (excluding credit card loans), the frequency of risky underwriting practices increased. The proportion of banks that either "frequently" or "commonly" made "secured" consumer loans without adequate collateral protection increased from 15 percent to 17 percent, and the proportion that either "frequently" or "commonly" made loans to borrowers who lacked demonstrable ability to repay increased from 20 percent to 21 percent.



Agricultural Loans

The proportion of agricultural lenders that showed a "moderate" or a "sharp" increase in the bank's level of carryover debt increased from 24 percent to 25 percent. But, the proportion of agricultural lenders that either "frequently" or "commonly" made agricultural loans on the basis of land values that cannot be supported by farm operations fell slightly, from 15 percent to 14 percent. Likewise, the proportion of banks that made agricultural loans on the basis of unrealistic cash flow projections fell slightly, from 15 percent to 14 percent.



Home Equity Loans

Of the FDIC-supervised banks that were active in home equity lending, the proportion of banks making home equity loans that pushed mortgage indebtedness above 90 percent of collateral value remained unchanged. Specifically, 11 percent of banks either "frequently" or "commonly" made such loans.

The proportion of banks that "frequently" qualified borrowers for home equity credit on the basis of initially discounted (teaser) loan rates dropped from 2 percent to 1 percent; and the proportion that did so "commonly" rose from 0 percent to 1 percent.

Credit Card Loans

Few FDIC-supervised banks were making new credit card loans. Of the banks active in new credit card lending, 2 percent (up from 1 percent previously) had high risk in current underwriting practices for such loans, and 2 percent (up from 1 percent) had high risk associated with the bank's credit card portfolio.

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."[2] 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."[3]

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.[4] 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.

[2] 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.

[3] 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.

[4] 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: 3/00	9/00	3/01	9/01	3/02
GENERAL UNDERWRITING PRACTICES						
Have the institution's underwriting practices materially changed since the last examination:	Yes	9.7	11.6	11.6	10.8	9.2
	No	90.3	88.4	88.4	89.2	90.8
If practices have materially changed, are they:[1]	Substantially tighter	1.1	1.4	1.2	1.5	0.8
	Moderately tighter	3.1	3.6	3.9	4.5	3.8
	Moderately looser	4.4	4.7	5.2	3.3	2.7
	Substantially looser	1.1	1.8	1.2	1.6	1.9
How would you characterize the risk associated with loan growth and/or significant changes in lending activities since the last examination:	Low	55.4	52.5	51.3	49.8	52.0
	Medium	28.6	29.3	31.2	31.8	30.6
	High	2.3	4.8	3.3	4.4	4.8
	Insignificant	13.8	13.4	14.2	14.1	12.6
RISK IN CURRENT PRACTICES						
How would you characterize the potential risk associated with the institution's current UW practices:	Low	67.7	65.3	64.7	63.3	60.6
	Medium	29.7	30.2	31.2	31.8	33.9
	High	2.7	4.6	4.2	4.9	5.5
How would you characterize the potential credit risk of the institution's overall loan portfolio:	Low	68.3	66.1	65.6	62.6	59.5
	Medium	29.0	29.1	30.1	31.8	34.3
	High	2.7	4.7	4.3	5.6	6.2
How would you characterize the potential risk in underwriting practices associated with loan participations purchased by the institution:	Low	78.5	78.8	74.5	76.2	73.1
	Medium	20.2	19.2	23.6	22.4	25.7
	High	1.3	2.1	2.0	1.4	1.2
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	79.5	77.0	79.4	76.9	76.9
	Frequently enough to warrant notice	14.1	16.3	14.3	15.5	15.7
	Commonly or standard procedure	6.4	6.7	6.4	7.6	7.5
To what extent is the institution currently engaged in out-of-area financing:	Never or infrequently	88.2	85.9	84.6	85.1	86.4
	Frequently enough to warrant notice	9.5	11.3	12.7	13.0	10.5
	Commonly or standard procedure	2.4	2.9	2.7	1.9	3.1
How would you characterize the risk associated with loan administration:	Low	65.5	62.1	63.4	60.0	58.3
	Medium	31.1	32.3	31.0	34.0	35.6
	High	3.4	5.6	5.6	6.0	6.1
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	87.7	87.6	87.6	89.6	87.3
	Frequently enough to warrant notice	10.5	10.2	10.0	8.1	10.3
	Commonly or standard procedure	1.8	2.3	2.4	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	76.8	77.4	78.6	76.2	75.1
	Frequently enough to warrant notice	20.8	19.3	18.8	19.8	21.5
	Commonly or standard procedure	2.5	3.3	2.7	4.0	3.4
To what extent do the institution's written lending policies differ from actual practices:	Never or infrequently	78.2	74.1	77.6	77.0	77.6
	Frequently enough to warrant notice	19.0	22.2	18.7	20.0	18.8
	Commonly or standard procedure	2.9	3.7	3.7	2.9	3.6
BUSINESS LOANS						
To what extent does the institution make business loans without a clear and reasonably predictable repayment source:	Never or infrequently	85.1	85.1	86.4	84.5	84.8
	Frequently enough to warrant notice	13.5	13.8	12.4	14.2	12.7
	Commonly or standard procedure	1.4	1.1	1.2	1.4	2.6
To what extent does the institution make business loans to borrowers who lack documented financial strength to support such lending:	Never or infrequently	79.9	77.9	78.4	77.9	77.0
	Frequently enough to warrant notice	18.5	20.2	19.8	20.2	20.3
	Commonly or standard procedure	1.6	1.9	1.8	1.9	2.8
With respect to asset-based business loans, to what extent does the institution fail to monitor collateral:	Never or infrequently	80.6	79.2	80.0	77.1	75.9
	Frequently enough to warrant notice	17.3	19.4	16.8	19.1	21.9
	Commonly or standard procedure	2.2	1.4	3.2	3.8	2.3
CONSTRUCTION LOANS						
To what extent is the institution funding residential construction projects on a speculative basis (i.e., without meaningful pre-sale, pre-lease or take-out commitments):	Never or infrequently	NA	NA	NA	NA	73.4
	Frequently enough to warrant notice	NA	NA	NA	NA	21.0
	Commonly or standard procedure	NA	NA	NA	NA	5.5
To what extent is the institution funding commercial construction projects on a speculative basis (i.e., without meaningful pre-sale, pre-lease or take-out commitments):	Never or infrequently	NA	NA	NA	NA	87.4
	Frequently enough to warrant notice	NA	NA	NA	NA	11.7
	Commonly or standard procedure	NA	NA	NA	NA	1.0
To what extent are construction loans made without consideration of repayment sources other than the project being funded:	Never or infrequently	88.1	87.4	86.7	87.4	88.5
	Frequently enough to warrant notice	10.5	10.7	10.8	10.6	10.3
	Commonly or standard procedure	1.4	2.0	2.5	2.0	1.2
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	87.7	87.5	87.4	86.9	87.3
	Frequently enough to warrant notice	11.1	10.6	10.5	10.8	11.0
	Commonly or standard procedure	1.1	1.9	2.1	2.3	1.8
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	89.5	87.7	88.3	88.2	88.5
	Frequently enough to warrant notice	9.6	10.8	10.6	10.2	10.9
	Commonly or standard procedure	0.9	1.5	1.1	1.6	0.6

[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:				
		3/00	**9/00**	**3/01**	**9/01**	**3/02**
CONSTRUCTION LOANS *(cont.)*						
To what extent does the institution fund, or defer, interest payments during the term of its commercial construction loans:	Never or infrequently	86.0	85.2	83.5	85.2	80.3
	Frequently enough to warrant notice	7.9	9.6	8.8	8.9	11.2
	Commonly or standard procedure	6.1	5.2	7.8	5.9	8.5
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	88.8	87.7	87.5	87.8	87.0
	Frequently enough to warrant notice	9.7	11.0	8.8	9.5	10.8
	Commonly or standard procedure	1.6	1.4	3.8	2.7	2.2
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	88.7	87.7	90.3	89.9	88.9
	Frequently enough to warrant notice	10.2	10.6	8.2	8.8	9.5
	Commonly or standard procedure	1.1	1.7	1.5	1.3	1.6
To what extent does the institution make interest-only, extended amortization, or negative amortization permanent commercial real estate loans:	Never or infrequently	92.7	92.5	94.0	93.2	92.2
	Frequently enough to warrant notice	6.9	6.8	5.1	6.0	7.5
	Commonly or standard procedure	0.5	0.7	0.9	0.8	0.3
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	83.1	82.2	84.8	86.4	82.4
	Frequently enough to warrant notice	13.8	15.0	11.4	11.2	14.1
	Commonly or standard procedure	3.1	2.9	3.8	2.4	3.5
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	91.4	88.7	90.9	90.7	89.4
	Frequently enough to warrant notice	8.2	10.1	8.5	8.4	9.9
	Commonly or standard procedure	0.4	1.2	0.6	0.9	0.7
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	88.3	86.6	90.5	88.8	89.3
	Frequently enough to warrant notice	9.2	9.9	7.7	10.3	10.0
	Commonly or standard procedure	2.5	3.5	1.8	0.9	0.8
To what extent does the institution qualify borrowers for home equity credit based on initially-discounted loan rates:	Never or infrequently	99.0	97.3	98.7	98.4	98.7
	Frequently enough to warrant notice	0.4	2.1	1.1	1.6	0.6
	Commonly or standard procedure	0.6	0.7	0.2	0.0	0.7
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	85.8	87.3	90.1	85.5	86.4
	Frequently enough to warrant notice	13.1	11.6	8.0	13.2	12.0
	Commonly or standard procedure	1.2	1.1	2.0	1.3	1.7
To what extent are agricultural loans being made based on unrealistic cash flow projections:	Never or infrequently	86.3	89.5	88.8	84.8	86.4
	Frequently enough to warrant notice	12.2	9.8	9.8	13.6	12.0
	Commonly or standard procedure	1.5	0.7	1.4	1.6	1.6
How would you characterize the change in the level of the institution's agricultural related carryover debt since the last examination:	Sharp decline	3.1	1.9	1.6	1.5	2.0
	Moderate decline	11.3	13.7	14.0	11.9	9.4
	No change	52.7	58.4	63.4	63.2	64.1
	Moderate increase	31.0	25.1	19.7	21.9	22.7
	Sharp increase	2.0	1.0	1.3	1.5	1.8
CONSUMER LOANS						
To what extent does the institution make 'secured' consumer loans without adequate collateral protection:	Never or infrequently	85.7	86.3	85.4	85.5	83.4
	Frequently enough to warrant notice	12.1	11.9	13.1	12.0	14.2
	Commonly or standard procedure	2.2	1.8	1.6	2.6	2.5
To what extent does the institution make consumer loans to borrowers who lack demonstrable ability to repay:	Never or infrequently	83.1	82.4	80.0	80.0	79.0
	Frequently enough to warrant notice	14.4	15.4	17.5	16.8	18.0
	Commonly or standard procedure	2.5	2.2	2.4	3.2	3.0
CREDIT CARD LOANS						
Have the institution's underwriting practices for new credit card loans materially changed since the last examination:	Yes	2.1	2.1	2.5	5.2	6.4
	No	97.9	97.9	97.5	94.8	93.6
Are underwriting practices for new credit cards:[1]	Substantially tighter	0.7	1.2	1.4	1.1	0.6
	Moderately tighter	0.5	0.5	1.1	2.9	3.8
	Moderately looser	0.9	0.0	0.0	1.2	1.2
	Substantially looser	0.0	0.3	0.0	0.0	0.7
How would you characterize the level of risk associated with the institution's current underwriting practices for new credit card loans:	Low	80.2	78.5	77.7	79.2	74.5
	Medium	18.5	20.0	21.5	20.3	24.0
	High	1.3	1.5	0.9	0.5	1.5
How would you characterize the level of risk associated with the institution's credit card portfolio:	Low	79.6	78.3	75.5	77.2	74.3
	Medium	19.6	19.8	21.9	21.9	23.5
	High	0.9	1.8	2.7	0.9	2.2
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	100.0	60.0	74.7	50.0	80.8
	Frequently enough to warrant notice	0.0	40.0	0.0	50.0	0.0
	Commonly or standard procedure	0.0	0.0	25.3	0.0	19.2

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

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

- Coverage: 1,149 FDIC-supervised banks.
- Period: Reports filed between October 1, 2001, and March 31, 2002.
- 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, 6 percent; assets between $300 million and $1 billion, 12 percent; assets between $25 million and $300 million, 71 percent; assets less than $25 million, 11 percent.

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.