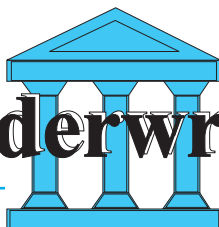


Report on Underwriting Practices

Federal Deposit Insurance Corporation



Donna Tanoue, Chairman

APRIL THROUGH SEPTEMBER 1999

HIGHLIGHTS

- During the six months ending September 30, 1999, the proportion of banks that loosened underwriting practices since the previous examination was about the same as the proportion that tightened them (5 percent).
- The frequency in risky underwriting practices for new lending in general was essentially unchanged during the six months ending September 30, 1999 compared with the six months ending March 31, 1999.
- In addition, the potential risk associated with current underwriting practices was also about the same during the two reporting periods.
- The frequency of specific risky underwriting practices within the major loan category of agriculture increased during this reporting period compared with the previous reporting period because of a rise in the level of carryover debt since the previous examination.
- Likewise, the frequency of specific risky underwriting practices within the major loan category of credit cards also increased during this reporting period compared with the previous reporting period.

GENERAL UNDERWRITING TRENDS

During the reporting period April 1, 1999, through September 30, 1999, examiners indicated that 89 percent of FDIC-supervised banks showed no material change in underwriting practices since the previous examination. The proportion of banks that loosened underwriting practices since the previous examination was about the same as the proportion that tightened them (5 percent). Examiners indicated that the two main reasons for tighter underwriting practices were a change in the bank's management and a response to examiners/regulators.

During the six months ending September 30, 1999, examiners reported that the frequency in risky underwriting practices for new lending in general was essentially unchanged compared with the previous reporting period of the six months ending March 31, 1999. In addition, the potential risk associated with current underwriting practices was also about the same during the two reporting periods. For example, the percent of FDIC-supervised banks with "high" risk in current underwriting practices equaled 4 percent (up slightly from 3 percent previously).

The table at the back of this report shows the weighted responses for 5 reporting periods beginning with the six months ending September 30, 1997 through the current: the six months ending September 30, 1999. Highlights of the results for "General Underwriting Practices" and "Risk in Current Practices" are below:

- Four percent had "high" risk associated with loan growth and/or significant changes in lending activities since the previous examination (unchanged from the previous period); 29 percent had "medium" risk (also unchanged); and 54 percent had "low" risk associated with loan growth and/or significant changes in lending

activities since the previous examination (down slightly from 55 percent). Thirteen percent showed insignificant changes in loan growth since the previous examination.

- Four percent had "high" potential credit risk in their current loan portfolios, (up slightly from the 3 percent during the previous reporting period). Twenty-nine percent had "medium" risk (down slightly from 30 percent previously); 67 percent had "low" risk during both periods.
- There was a slight increase in the potential risk in underwriting practices associated with loan participations purchased by the institution. Only 2 percent had "high" risk (up slightly from 1 percent during the previous reporting period); 21 percent had "medium" potential risk (up from 19 percent previously); and 77 percent had "low" (down from 80 percent previously). One-third of the banks examined during the reporting period did not purchase loan participations.
- The proportion of FDIC-supervised banks that made loans resulting in high concentrations of loans to one borrower or to one industry "commonly or as standard procedure" equaled 8 percent (up slightly from 7 percent during the previous reporting period). The proportion that did so "frequently enough to warrant notice" also inched up to 14 percent from 13 percent previously and 79 percent did so "never or infrequently" (down from 80 percent previously).
- The potential credit risk associated with loan administration worsened slightly compared with the previous reporting periods. Five percent had "high" potential credit risk during both periods. But 32 percent had "medium" (compared with 31 percent previously) and

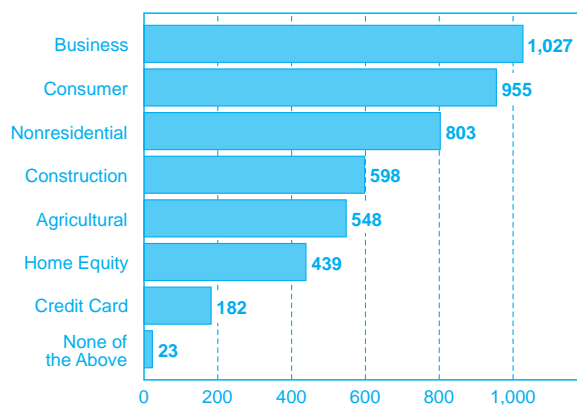
63 percent had “low” potential credit risk associated with loan administration (down from 65 percent previously).

Of the 1,227 banks examined, few used a credit scoring model for credit decisions (204). The model was used most frequently for consumer installment lending (125).

INDIVIDUAL LOAN CATEGORIES

Responses during this reporting period show that 1,027 of the 1,227 banks examined were active business lenders; 955 banks were actively making consumer loans (excluding credit cards); and 803 banks were actively making commercial (nonresidential) real estate loans. Twenty-three banks were not active in any of the major loan categories covered. The number for other loan categories is shown in the accompanying chart. Only 291 banks examined had activity in additional loan categories, mainly in dealer paper loans (140).

Number of Banks Actively Making Loans by Loan Type
Responses Received: 4/99–9/99



Total number of banks: 1227.

The frequency of specific risky underwriting practices increased from the previous reporting period in two major loan categories: agriculture and credit card. In the remaining loan categories, the frequency of specific risky underwriting practices in major loan categories decreased or remained the same. Examiners occasionally commented that some lenders lacked proper loan documentation 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.

Agricultural Loans

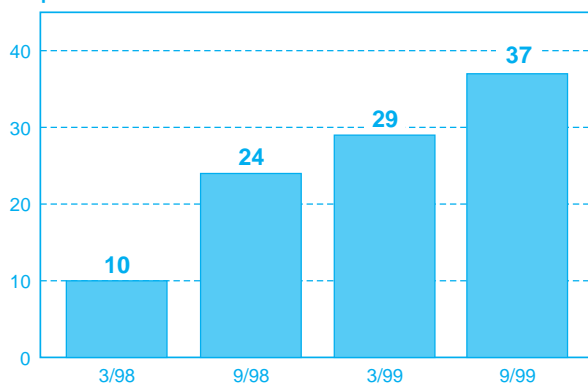
Examiners noted increases in FDIC-supervised banks’ level of carryover debt during the reporting period. They also continued to monitor the extent to which banks’ agricultural loan portfolios were tied to major crops affected by the Federal Agricultural

Improvement and Reform Act of 1996.¹ However, in mid-October, the President signed an emergency package for farmers (the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2000). As designed by Congress, within two weeks of the President’s signature the \$8.7 billion aid package will deliver \$5.5 billion to farmers. With these payments, farmers are expected to repay bank loans.

- Thirty-seven percent of the FDIC-supervised banks active in agricultural lending showed a “moderate” increase in the level of carryover debt (up from 29 percent during the previous reporting period) and 5 percent showed a “sharp” increase (up from 3 percent previously). Examiners commented about continued low crop and livestock prices that could translate into sharp increases in the level of future carryover debt.

Agricultural Loans

Proportion of FDIC-Supervised Banks Having a “Moderate” Increase in Carryover Debt (Six-Month Period Ending . . .)
Proportion



- 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” during both reporting periods. But, 22 percent were affected by the phaseouts “commonly or as standard procedure” (up from 18 percent previously).

Credit-Card Loans

Examiners reported an increase in the frequency of specific risky underwriting practices in credit-card lending and credit-card portfolios during the six months ending September 30, 1999. For example, of the FDIC-supervised banks active in credit-card lending,

¹ 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.

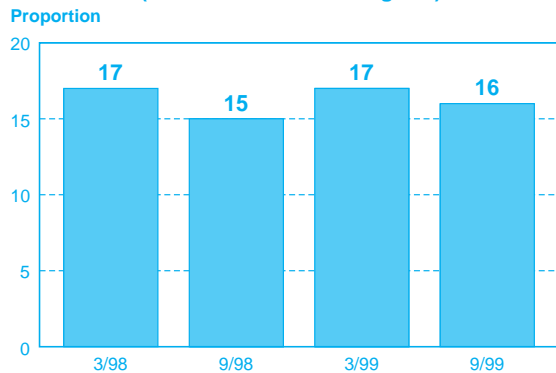
- Three percent had “high” risk in current underwriting practices for new credit card loans (up from 1 percent during the previous period); 24 percent had “medium” risk (down slightly from 25 percent previously); and 73 percent had “low” risk (down slightly from 74 percent previously).
- Three percent had “high” risk in their current loan portfolios (up from none previously); 23 percent had “medium” risk (down from 24 percent previously); and 74 percent had “low” (down from 77 percent previously).
- Ninety-four percent had no changes in underwriting practices for new credit-card loans since the previous examination (up from 91 percent previously).
- One percent had “substantially” loosened underwriting practices since the previous examination, 2 percent had “moderately” loosened them, 1 percent had “substantially” tightened them, and 3 percent had “moderately” tightened them.

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. Within business lending, the frequency of risky underwriting practices changed only slightly. 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” during both reporting periods. Two percent did so “commonly or as standard procedure” (down from 3 percent previously).

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.”

- Eighteen percent made business loans to borrowers who lacked documented financial strength to support such lending “frequently enough to war-

rant notice” (up slightly from 17 percent previously). An additional 2 percent did so “commonly or as standard procedure” during both periods.

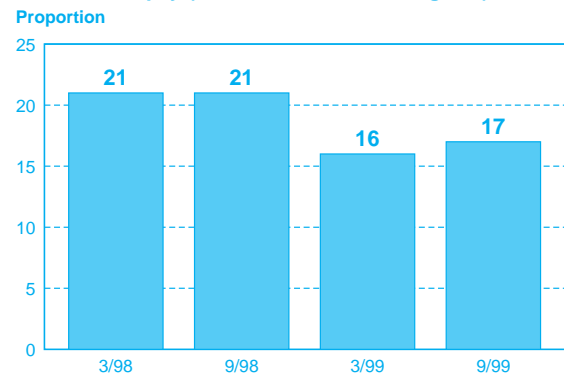
- Of the banks making asset-based loans, 19 percent failed to monitor the collateral pledged “frequently enough to warrant notice” (down from 20 percent previously); another 2 percent did so “commonly or as standard procedure” (down from 3 percent previously).

Consumer Loans (Excluding Credit Card Lending)

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

- Thirteen percent made consumer loans without adequate collateral protection “frequently enough to warrant notice”; an additional 2 percent made loans lacking collateral protection “commonly or as standard procedure” (compared with 11 percent and 3 percent, respectively, during the previous reporting period).
- Fifteen percent made loans to borrowers who lack a demonstrable ability to repay “frequently enough to warrant notice”; an additional 2 percent did so “commonly or as standard procedure.” (Previously, the comparable proportions were 14 percent and 3 percent, respectively.)

Consumer Loans
Loans Made to Borrowers Who Lack Demonstrable Ability to Repay (Six-Month Period Ending . . .)



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

Commercial (Nonresidential) Real Estate Loans

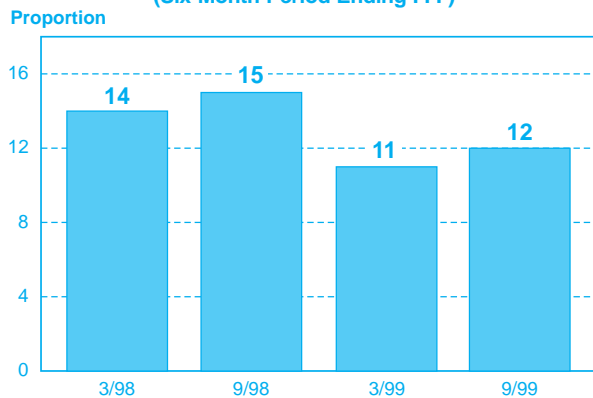
In commercial real estate lending, examiners review underwriting practices to ensure that the income generated from the property is not the only source of repayment. Because future income is uncertain, sound underwriting practices generally require alternative sources of repayment. The frequency of specific risky underwriting practices was about the

same during this reporting period compared with the previous reporting period. However, the rise in national vacancy rates for commercial office and industrial properties during the first half of 1999 (the first such increase since the early 1990s) may indicate potential risks in the commercial market.

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

- Eleven percent failed to consider repayment sources other than the project being funded “frequently enough to warrant notice” (up from 9 percent during the previous reporting period). But, 2 percent failed to consider alternative sources of repayment “commonly or as standard procedure” (unchanged from previously).

**Commercial (Nonresidential) Real Estate
Loans Made with No Consideration of Repayment Source
Other than the Project Being Funded
(Six-Month Period Ending . . .)**



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

- Six percent made interest-only, extended-amortization, or negative-amortization permanent commercial real estate loans “frequently enough to warrant notice” (down slightly from 7 percent previously) and 1 percent did so “commonly or as standard procedure” (up from almost none previously).
- Fifteen percent made short-term commercial real estate loans with minimal amortization and large balloon payments “frequently enough to warrant notice” (up from 13 percent previously) and 3 percent did so “commonly or as standard procedure” during both periods.

Construction Loans

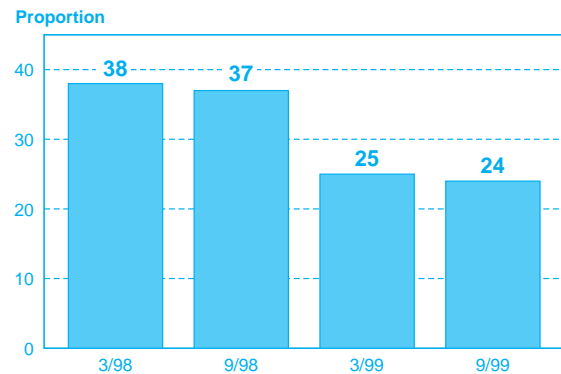
During this reporting period the frequency of specific risky underwriting practices in construction lending remained essentially unchanged compared with the previous period.

Of the FDIC-supervised banks active in construction lending,

- Twenty percent funded speculative construction projects (that is, those unaccompanied by com-

mitments) “frequently enough to warrant notice” (up slightly from 19 percent during the previous reporting period); but 4 percent did so “commonly or as standard procedure” (down slightly from 5 percent previously).

**Construction Loans
Loans Made on a Speculative Basis
(Six-Month Period Ending . . .)**



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

- Ten percent made construction loans without considering sources of repayment other than the project being funded “frequently enough to warrant notice” (down from 12 percent previously). But, 2 percent did so “commonly or as standard procedure” (up from 1 percent).
- In addition, 10 percent required alternative sources of repayment but failed to verify the quality of those sources “frequently enough to warrant notice” (down from 11 percent previously); an additional 3 percent failed to verify the quality of those sources “commonly or as standard procedure” (up from 1 percent previously).
- Ten percent funded, or deferred, interest payments during the loan term “frequently enough to warrant notice” (unchanged from the previous reporting period); but an additional 3 percent did so “commonly or as standard procedure” (down from 6 percent previously).
- Eleven 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” (up from 10 percent previously); less than 1 percent did so “commonly or as standard procedure” (down from 2 percent previously).

Home-Equity Loans

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

- Nine percent made home equity loans that pushed mortgage indebtedness above 90 percent of collateral “frequently enough to warrant notice” (up from 6 percent during the previous reporting period); but only 1 percent did so “commonly or as

standard procedure” (down from 4 percent previously).

- Only 1 percent qualified borrowers for home equity credit on the basis of initially discounted loan (teaser) rates “frequently enough to warrant notice” (down slightly from 2 percent previously); less than 1 percent did so “commonly or as standard procedure” (unchanged).

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. 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.”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 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 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.⁴ 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.

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 For more information about the weights, please contact Virginia Olin, DRS, 202/898-8711.

RESULTS FROM THE REPORT ON UNDERWRITING PRACTICES

Percent of Respondents

		Weighted Six-Month Period Ending:				
		9/97	3/98	9/98	3/99	9/99
GENERAL UNDERWRITING PRACTICES						
Have the institution's underwriting practices materially changed since the last examination:	Yes	9.0	10.7	11.7	9.3	10.6
	No	91.0	89.3	88.3	90.7	89.4
If practices have materially changed, are they:¹	Substantially tighter	NA	NA	NA	0.9	1.1
	Moderately tighter	4.8	4.4	5.4	4.3	4.1
	Moderately looser	4.2	6.4	6.3	3.1	4.3
	Substantially looser	NA	NA	NA	1.0	1.1
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	55.1	54.4
	Medium	NA	NA	NA	28.8	28.9
	High	NA	NA	NA	3.9	4.1
	Not relevant	NA	NA	NA	12.2	12.7
RISK IN CURRENT PRACTICES						
How would you characterize the potential risk associated with the institution's current UW practices:	Low	NA	NA	NA	65.0	66.4
	Medium	NA	NA	NA	31.8	29.9
	High	NA	NA	NA	3.3	3.7
How would you characterize the potential credit risk of the institution's overall loan portfolio:	Low	NA	NA	NA	66.5	66.7
	Medium	NA	NA	NA	30.4	29.0
	High	NA	NA	NA	3.1	4.3
How would you characterize the potential risk in underwriting practices associated with loan participations purchased by the institution:	Low	NA	NA	NA	79.7	77.4
	Medium	NA	NA	NA	19.4	21.0
	High	NA	NA	NA	0.8	1.6
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	81.1	79.1	77.7	80.0	78.6
	Frequently enough to warrant notice	12.5	13.9	14.5	12.9	13.9
	Commonly or standard procedure	6.4	7.0	7.8	7.1	7.5
To what extent is the institution currently engaged in out-of-area financing:	Never or infrequently	NA	NA	NA	89.2	87.1
	Frequently enough to warrant notice	NA	NA	NA	8.3	9.8
	Commonly or standard procedure	NA	NA	NA	2.5	3.1
How would you characterize the risk associated with loan administration:	Low	NA	NA	NA	64.5	63.1
	Medium	NA	NA	NA	30.8	31.6
	High	NA	NA	NA	4.7	5.3
To what degree does the institution fail to adjust its loan pricing on different quality loans to reflect differences in risk:	Never or infrequently	68.3	72.1	73.0	89.4	86.2
	Frequently enough to warrant notice	26.6	23.4	22.3	8.0	11.4
	Commonly or standard procedure	5.1	4.6	4.7	2.6	2.5
To what extent does the institution fail to require a material principal reduction before renewing term loans:	Never or infrequently	60.9	63.1	62.5	76.2	75.7
	Frequently enough to warrant notice	33.9	31.3	32.7	20.2	20.9
	Commonly or standard procedure	5.2	5.6	4.8	3.6	3.4
To what extent does the institution's written lending policies differ from actual practices:	Never or infrequently	75.8	72.5	71.5	79.8	77.5
	Frequently enough to warrant notice	21.1	23.1	22.7	17.1	19.4
	Commonly or standard procedure	3.1	4.4	5.8	3.1	3.1
BUSINESS LOANS						
To what extent does the institution make business loans without a clear and reasonably predictable repayment source:	Never or infrequently	85.9	82.6	85.2	82.9	84.2
	Frequently enough to warrant notice	13.0	15.6	12.6	13.8	13.8
	Commonly or standard procedure	1.1	1.8	2.3	3.3	2.0
To what extent does the institution make business loans to borrowers who lack documented financial strength to support such lending:	Never or infrequently	79.8	76.7	78.6	81.0	80.5
	Frequently enough to warrant notice	18.8	20.6	18.9	16.6	17.7
	Commonly or standard procedure	1.4	2.7	2.5	2.3	1.8
With respect to asset-based business loans, to what extent does the institution fail to monitor collateral:	Never or infrequently	81.5	79.0	83.6	77.7	78.6
	Frequently enough to warrant notice	17.2	18.0	14.4	19.5	19.0
	Commonly or standard procedure	1.4	3.0	2.0	2.7	2.4
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	72.6	62.2	63.2	75.2	76.0
	Frequently enough to warrant notice	23.8	30.6	29.7	19.4	20.1
	Commonly or standard procedure	3.7	7.2	7.2	5.4	3.9
To what extent are construction loans made without consideration or repayment sources other than the project being funded:	Never or infrequently	81.3	76.4	74.3	87.3	88.1
	Frequently enough to warrant notice	16.1	18.7	22.6	11.6	10.4
	Commonly or standard procedure	2.5	5.0	3.1	1.1	1.5
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	84.0	79.1	83.6	88.0	87.9
	Frequently enough to warrant notice	13.8	16.7	14.1	11.3	9.5
	Commonly or standard procedure	2.2	4.1	2.2	0.8	2.5
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	90.2	86.0	86.0	89.8	87.9
	Frequently enough to warrant notice	9.2	12.2	11.8	9.9	11.2
	Commonly or standard procedure	0.6	1.8	2.2	0.3	0.9
To what extent does the institution fund, or defer, interest payments during the term of its commercial construction loans:	Never or infrequently	85.7	80.3	79.8	83.9	87.1
	Frequently enough to warrant notice	10.6	13.9	14.4	10.0	9.6
	Commonly or standard procedure	3.7	5.8	5.9	5.9	3.2

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

RESULTS FROM THE REPORT ON UNDERWRITING PRACTICES

Percent of Respondents

		9/97	Weighted Six-Month Period Ending:				9/99
			3/98	9/98	3/99	9/99	
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	88.4	88.8	
	Frequently enough to warrant notice	NA	NA	NA	9.7	10.8	
	Commonly or standard procedure	NA	NA	NA	1.9	0.4	
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	89.5	86.1	85.1	88.9	87.7	
	Frequently enough to warrant notice	9.6	12.5	12.3	8.9	10.5	
	Commonly or standard procedure	0.9	1.4	2.6	2.2	1.8	
To what extent does the institution make interest-only, extended amortization, or negative amortization permanent commercial real estate loans:	Never or infrequently	93.6	93.0	92.8	93.4	93.4	
	Frequently enough to warrant notice	6.1	6.3	7.2	6.5	5.9	
	Commonly or standard procedure	0.2	0.7	0.0	0.1	0.7	
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	84.7	80.6	84.7	83.9	81.8	
	Frequently enough to warrant notice	12.5	15.0	12.7	12.9	15.3	
	Commonly or standard procedure	2.8	4.4	2.7	3.2	2.9	
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	91.8	90.0	89.6	92.1	90.1	
	Frequently enough to warrant notice	7.5	9.2	9.9	7.7	9.5	
	Commonly or standard procedure	0.7	0.8	0.6	0.1	0.4	
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	88.0	88.1	86.8	91.0	89.3	
	Frequently enough to warrant notice	7.9	9.9	11.5	5.5	9.4	
	Commonly or standard procedure	4.1	2.0	1.7	3.5	1.4	
To what extent does the institution qualify borrowers for home equity credit based on initially-discounted loan rates:	Never or infrequently	97.1	99.0	98.3	98.0	98.1	
	Frequently enough to warrant notice	1.6	1.0	1.7	1.8	1.3	
	Commonly or standard procedure	1.4	0.0	0.0	0.2	0.5	
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	87.8	86.0	
	Frequently enough to warrant notice	NA	NA	NA	10.6	11.9	
	Commonly or standard procedure	NA	NA	NA	1.7	2.1	
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	54.9	59.2	51.2	58.6	55.0	
	Frequently enough to warrant notice	30.3	27.1	27.7	23.0	22.8	
	Commonly or standard procedure	14.8	13.7	21.1	18.4	22.2	
To what extent are agricultural loans being made based on unrealistic cash flow projections:	Never or infrequently	89.3	88.1	84.3	85.7	84.5	
	Frequently enough to warrant notice	8.7	9.4	12.6	13.0	14.3	
	Commonly or standard procedure	2.0	2.5	3.1	1.3	1.2	
How would you characterize the change in the level of the institution's agricultural related carryover debt since the last examination:	Sharp decline	4.7	2.4	0.8	1.6	2.0	
	Moderate decline	30.3	25.5	17.6	9.6	7.0	
	No change	50.1	60.5	55.8	56.4	48.7	
	Moderate increase	13.5	10.4	23.5	29.0	37.3	
	Sharp increase	1.5	1.2	2.4	3.4	5.1	
CONSUMER LOANS							
To what extent does the institution make "secured" consumer loans without adequate collateral protection:	Never or infrequently	82.4	83.0	82.6	86.5	85.0	
	Frequently enough to warrant notice	14.7	14.2	13.5	10.9	13.1	
	Commonly or standard procedure	3.0	2.8	3.9	2.6	1.9	
To what extent does the institution make consumer loans to borrowers who lack demonstrable ability to repay:	Never or infrequently	82.3	78.9	79.5	83.7	83.4	
	Frequently enough to warrant notice	15.6	18.0	16.0	13.9	14.7	
	Commonly or standard procedure	2.2	3.1	4.5	2.5	2.0	
CREDIT CARD LOANS							
Have the institution's underwriting practices for new credit card loans materially changed since the last examination:	Yes	17.9	15.7	10.9	9.2	6.4	
	No	82.0	84.3	89.1	90.9	93.6	
Are underwriting practices for new credit cards: ¹	Substantially tighter	NA	NA	NA	1.3	0.8	
	Moderately tighter	14.0	13.7	9.4	7.2	3.3	
	Moderately looser	3.9	2.0	1.5	0.0	1.5	
	Substantially looser	NA	NA	NA	0.7	0.9	
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	74.4	72.6	
	Medium	NA	NA	NA	24.7	24.2	
	High	NA	NA	NA	0.9	3.2	
How would you characterize the level of risk associated with the institution's credit card portfolio:	Low	NA	NA	NA	76.5	74.4	
	Medium	NA	NA	NA	23.5	22.5	
	High	NA	NA	NA	0.0	3.1	
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	0.0	84.3	
	Frequently enough to warrant notice	NA	NA	NA	0.0	15.7	
	Commonly or standard procedure	NA	NA	NA	0.0	0.0	

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

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

- Coverage: 1,127 FDIC-supervised banks.
- Period: Reports filed between April 1 and September 30, 1999.
- Charter types: state-chartered commercial banks, 90 percent; state-chartered savings banks, 10 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, 10 percent; assets between \$25 million and \$300 million, 72 percent; assets less than \$25 million, 13 percent.
- Proportion of all FDIC-supervised banks (as of June 30, 1999): 27 percent of assets and 21 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.