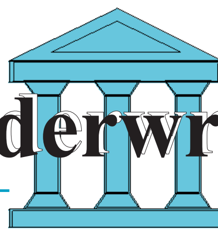


Report on Underwriting Practices

Federal Deposit Insurance Corporation — Donna Tanoue, Chairman

APRIL THROUGH SEPTEMBER 2000

HIGHLIGHTS

- During the six months ending September 30, 2000, examiners reported increases in the risks associated with underwriting practices and more frequent occurrences of risky underwriting practices compared with the six months ending March 31, 2000.
- Five percent of FDIC-supervised banks were reported to have "high" risk associated with current underwriting practices for new lending compared with 3 percent during the previous six months. In addition, 5 percent were reported as having "high" risk in their overall loan portfolios, also up from 3 percent previously.
- Compared with the six months ending March 31, 2000, examiners also reported more frequent occurrences of risky underwriting practices in three of the seven major loan categories covered in the questionnaire: construction, commercial (nonresidential) real estate, and home equity lending.
- The frequency of risky underwriting practices in the major loan category of agriculture decreased slightly compared with the previous period. Results for consumer and credit card loans, however, were mixed.

INTRODUCTION

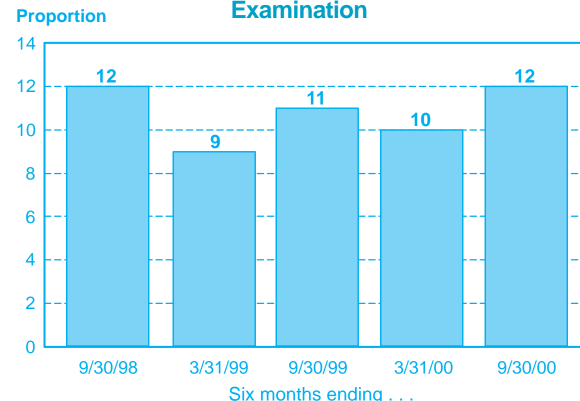
At the end of each FDIC-supervised bank examination, the examiner in charge responds to a questionnaire on the bank's underwriting practices. This *Report on Underwriting Practices* covers the responses submitted during the six months beginning April 1, 2000, and ending September 30, 2000. The number of responses received during this six months was 1,124—which represents approximately 20 percent of the number and 28 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*.

GENERAL UNDERWRITING TRENDS

During the six months ending September 30, 2000, examiners indicated that 12 percent of FDIC-supervised banks showed a material change in underwriting practices since the previous examination, the largest percentage since September 30, 1998. The percentage of banks that had loosened their underwriting practices since the previous examination was larger than the percentage that had tightened them (7 percent and 5 percent).

In general, greater levels of risk were seen among banks that were reported to have loosened their underwriting practices than among banks 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.

The main reasons for the loosening of underwriting practices, as indicated by examiners, were competition and/or a



drive to meet growth goals; the reasons for the tightening were a need to respond to regulatory observations and/or a change in management.

Examiners also reported that the potential risk associated with institutions' current underwriting practices increased during the six months ending September 30, 2000, compared with the six months ending March 31, 2000. For example, the proportion of banks with "high" risk associated with institutions' current underwriting practices increased from 3 percent to 5 percent.

The proportion of banks with an absolute level of "high" potential credit risk in their loan portfolios also rose—from 3 percent to 5 percent.

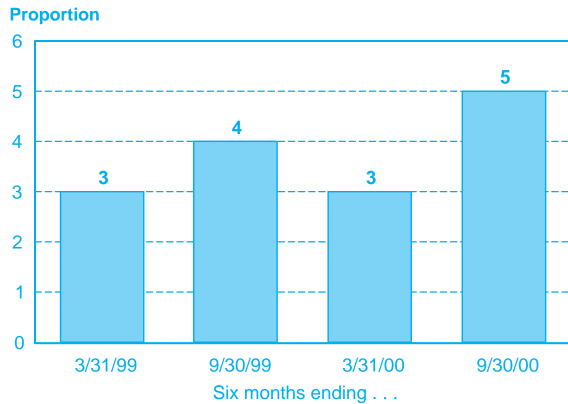
The most noteworthy changes for FDIC-supervised banks during the six months ending September 30, 2000, compared with the six months ending March 31, 2000, were increases in the proportions of banks in the following categories: those with "high" risk associated with loan growth and/or with significant changes in lending activities,

FDIC

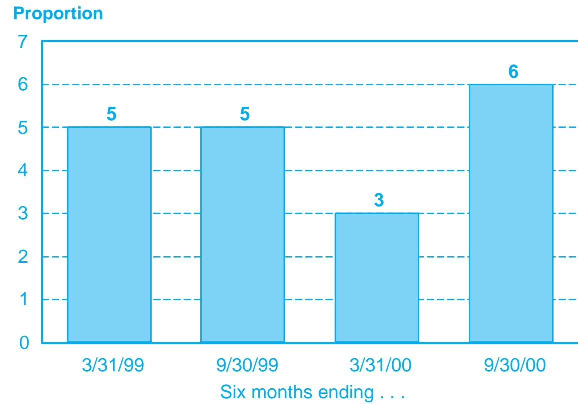
Division of Research and Statistics
Virginia Olin (202) 898-8711
Internet address: World Wide Web, www.fdic.gov.

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

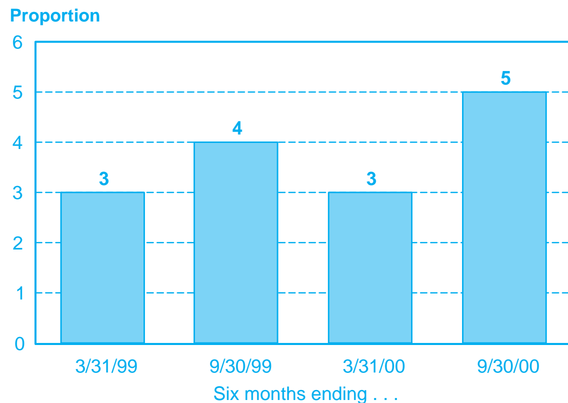
Proportion of FDIC-Supervised Banks with "High" Risk Associated with Current Underwriting Practices



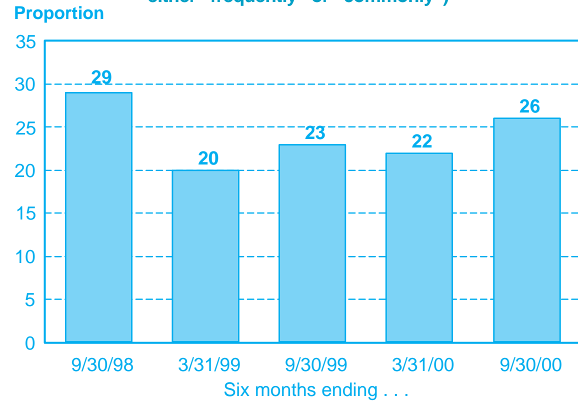
Proportion of FDIC-Supervised Banks with "High" Risk Associated with Loan Administration



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

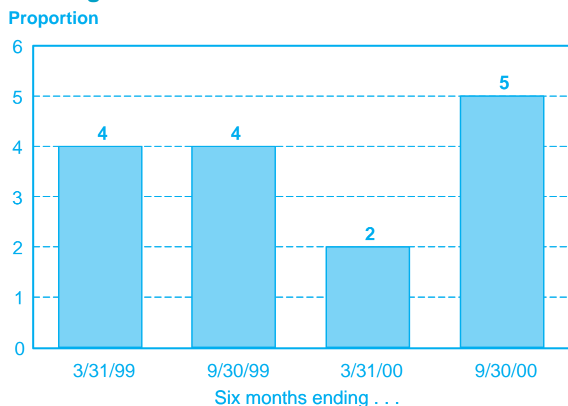


Loans Made in Which the Institution's Written Policies Differ from Actual Practices
(Proportion of FDIC-supervised banks making such loans either "frequently" or "commonly")



those with "high" risk associated with loan administration, and those whose written lending policies differed from actual practices either "frequently enough to warrant notice" (hereafter, "frequently") or "commonly or as standard procedure" (hereafter, "commonly"). The occurrences of all types of risky underwriting practices were considerably higher among banks with "high" risk in current underwriting practices than among banks with "medium" or "low" risk in current underwriting practices.

Proportion of FDIC-Supervised Banks with "High" Risk Associated with Loan Growth and/or Changes in Lending Activities since the Previous Examination



Of the 1,124 banks examined, 197 used a credit scoring model for credit decisions; the model was used most frequently (105 banks) for consumer installment lending.

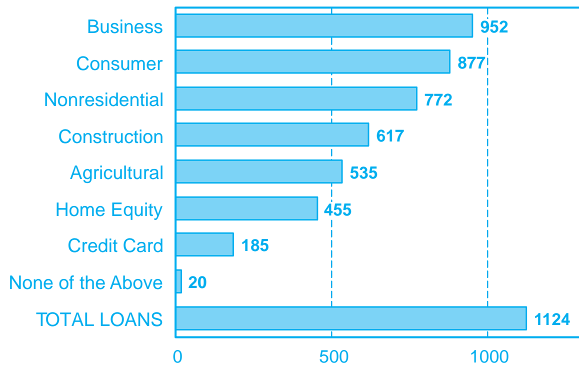
INDIVIDUAL LOAN CATEGORIES

During the six months ending September 30, 2000, of the 1,124 banks examined, 952 were active in business lending, 877 in consumer lending (excluding credit cards), and 772 in commercial (nonresidential) real estate lending. Twenty banks were not active in any of the major loan categories covered.

Examiners are also asked to report additional loan categories (those not listed in the chart) in which the institution may be active.[1] Only 246 banks examined had activity in additional loan categories, with the largest number (124) having dealer paper loans. Only 21 banks examined had activity in home equity lending with high loan-to-value ratios.

Compared with the six months ending March 31, 2000, examiners also reported more frequent occurrences of risky underwriting practices in three of the seven major loan categories covered in the questionnaire: construction, commercial (nonresidential) real estate, and home equity

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



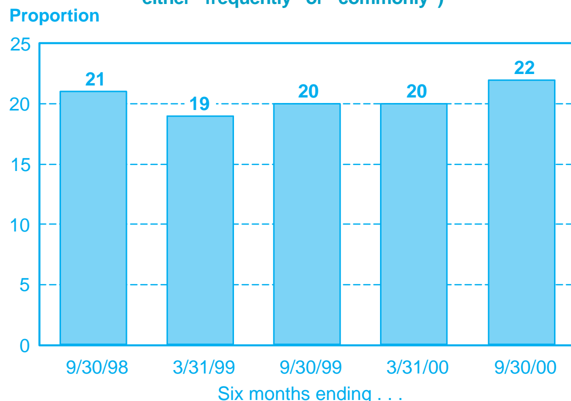
lending. The frequency of risky underwriting practices in the major loan category of agriculture decreased slightly during the six months ending September 30, 2000, compared to the six months ending March 31, 2000.

The occurrences of risky underwriting practices in each of the major loan categories were considerably higher among banks with "high" risk in current underwriting practices than among banks with "medium" or "low" risk in current underwriting practices.

Business Loans

The frequency of specific risky underwriting practices in business lending remained about the same during the six months ending September 30, 2000, as it was during the six months ending March 31, 2000, except that 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 increased from 20 percent to 22 percent.

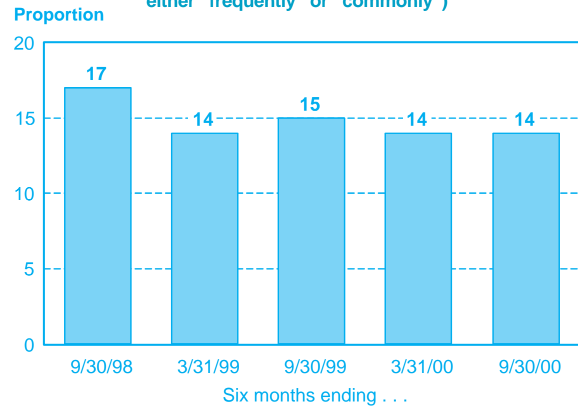
Among banks making business loans, the proportion that either "frequently" or "commonly" failed to monitor the collateral pledged on asset-based loans remained about the same (21 percent, compared with 20 percent previously), and the proportion that either "frequently" or "commonly" made business loans without a clear and reasonably predictable repayment source was unchanged—15 percent.



Consumer Loans (Excluding Credit Card Lending)

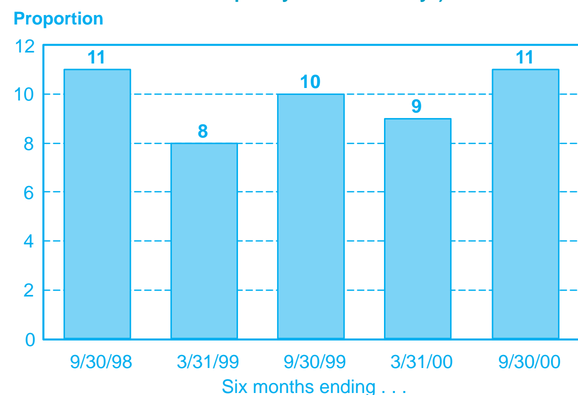
For FDIC-supervised banks active in consumer lending (excluding credit card loans), the frequency of specific risky underwriting practices remained about the same during the six months ending September 30, 2000, compared with the previous six months. Fourteen percent either "frequently" or "commonly" made "secured" consumer loans without adequate collateral protection (unchanged from previously).

Eighteen percent either "frequently" or "commonly" made loans to borrowers who lack a demonstrable ability to repay (up from 17 percent previously).



Commercial (Nonresidential) Real Estate Loans

For commercial (nonresidential) real estate lending, the frequency of specific risky underwriting practices was higher compared with the previous six months. Of the FDIC-supervised banks actively making such loans, 11 percent either "frequently" or "commonly" made loans without using realistic appraisal values relative to the current

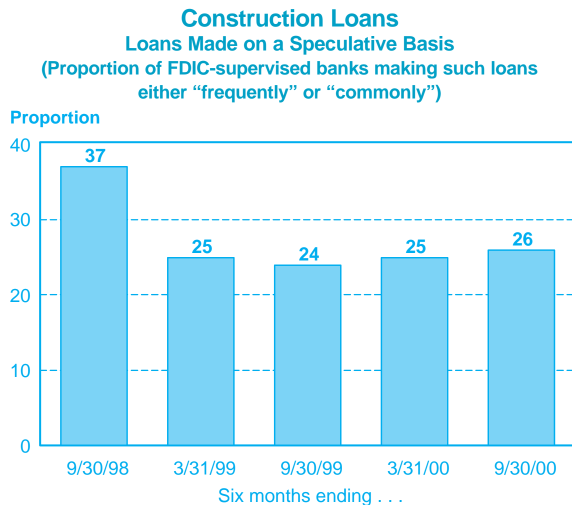


economic environment and/or to the performance observed on similar credits (up from 9 percent previously).

Eighteen percent either "frequently" or "commonly" made short-term commercial real estate loans with minimal amortization terms and large "balloon" payments at maturity, up from 17 percent. And 12 percent either "frequently" or "commonly" made commercial real estate loans without consideration of repayment sources other than the project being funded (up from 11 percent). The proportion of banks that either "frequently" or "commonly" made interest-only, extended-amortization, or negative-amortization permanent commercial real state remained the same—7 percent.

Construction Loans

The frequency of specific risky underwriting practices in construction lending also increased slightly compared with the previous six months. The proportion of FDIC-supervised banks making speculative construction loans (that is, projects unaccompanied by refinancing commitments) either "frequently" or "commonly" rose from 25 percent to 26 percent.

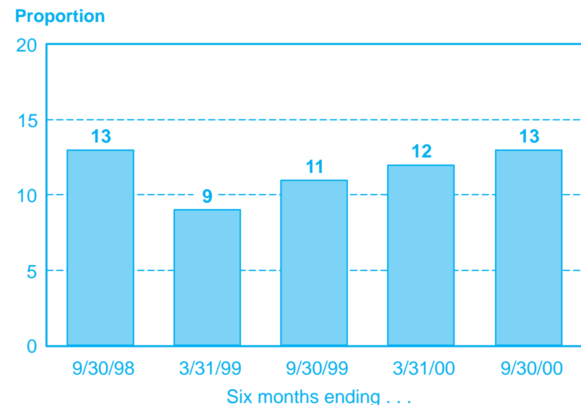


And the proportion that either "frequently" or "commonly" failed to use realistic appraisal values relative to the current economic environment and/or to the performance observed on similar credits rose from 11 percent to 12 percent. For FDIC-supervised banks either "frequently" or "commonly" making construction loans for the following underwriting practices, the increase in the frequency of risky practices was slight: (1) making construction loans without consideration of repayment sources other than the project being funded—13 percent, compared with 12 percent previously; (2) failing to take appropriate steps to verify the quality of alternative repayment sources when such sources are required—13 percent, compared with 12 percent previously; (3) funding, or deferring, interest payments during the commercial construction loan term—15 percent, compared with 14 percent previously; and (4) funding 100 percent of the cost of construction and land, with no cash equity on the part of the borrower/developer—12 percent, compared with 11 percent previously.

Home Equity Loans

Of FDIC-supervised banks active in home equity lending, a slightly larger proportion were making home equity loans that pushed mortgage indebtedness above 90 percent of collateral value. Specifically, 13 percent were making such loans either "frequently" or "commonly," compared with 12 percent previously.

Three percent of banks either "frequently" or "commonly" qualified borrowers for home equity credit on the basis of initially discounted loan (teaser) rates (up from 1 percent previously).



Credit Card Loans

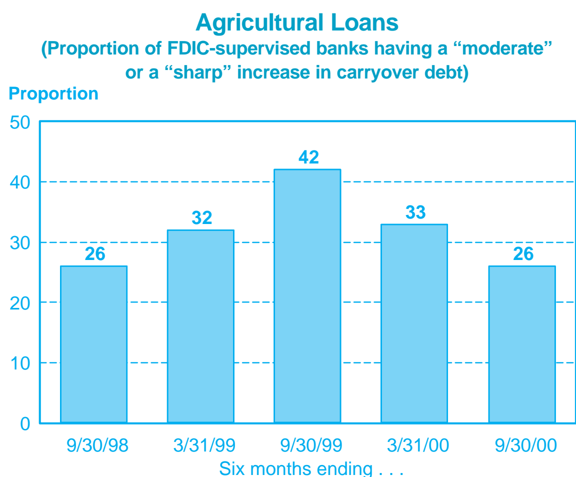
Few FDIC-supervised banks were making new credit card loans. Two percent of banks active in new credit card lending had "high" risk in current underwriting practices for new credit card loans (up from 1 percent previously). Two percent also had "high" risk associated with the bank's credit card portfolio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

Agricultural Loans

For FDIC-supervised banks active in agricultural lending, for the second 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. These smaller proportions may reflect legislation designed to assist farmers in both 1998 and 1999.

In general, examiners noted slight decreases in the frequency of risky practices for agricultural lending at FDIC-supervised banks that were actively making agricultural loans. For example, 13 percent either "frequently" or "commonly" made agricultural loans on the basis of land values that cannot be supported by farm operations (down from 14 percent previously). Forty-four percent either "frequently" or "commonly" had portfolios tied to crops affected by the Federal Agricultural Improvement and Reform Act of 1996[2] (down slightly from 45 percent previously).

[2] 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.



And 11 percent either "frequently" or "commonly" made agricultural loans on the basis of unrealistic cash flow projections (down from 14 percent previously).

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."[3] 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."[4]

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.[5] 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.

[3] **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.

[4] **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.

[5] 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:				
		9/98	3/99	9/99	3/00	9/00
GENERAL UNDERWRITING PRACTICES						
Have the institution's underwriting practices materially changed since the last examination:	Yes	11.7	9.3	10.6	9.8	11.6
	No	88.3	90.7	89.4	90.3	88.4
If practices have materially changed, are they:[1]	Substantially tighter	NA	0.9	1.1	1.1	1.4
	Moderately tighter	5.4	4.3	4.1	3.1	3.6
	Moderately looser	6.3	3.1	4.3	4.4	4.7
	Substantially looser	NA	1.0	1.1	1.1	1.8
How would you characterize the risk associated with loan growth and/or significant changes in lending activities since the last examination:	Low	NA	55.1	54.3	55.4	52.5
	Medium	NA	28.8	28.9	28.6	29.3
	High	NA	3.9	4.1	2.3	4.8
	Insignificant	NA	12.2	12.7	13.8	13.4
RISK IN CURRENT PRACTICES						
How would you characterize the potential risk associated with the institution's current UW practices:	Low	NA	65.0	66.4	67.7	65.3
	Medium	NA	31.8	29.9	29.7	30.2
	High	NA	3.3	3.7	2.7	4.6
How would you characterize the potential credit risk of the institution's overall loan portfolio:	Low	NA	66.5	66.7	68.3	66.1
	Medium	NA	30.4	29.0	29.0	29.1
	High	NA	3.1	4.3	2.7	4.7
How would you characterize the potential risk in underwriting practices associated with loan participations purchased by the institution:	Low	NA	79.7	77.4	78.4	78.8
	Medium	NA	19.4	21.1	20.2	19.2
	High	NA	0.8	1.6	1.3	2.1
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	77.7	80.0	78.6	79.5	77.0
	Frequently enough to warrant notice	14.5	12.9	13.9	14.1	16.3
	Commonly or standard procedure	7.8	7.1	7.5	6.4	6.7
To what extent is the institution currently engaged in out-of-area financing:	Never or infrequently	NA	89.2	87.1	88.2	85.9
	Frequently enough to warrant notice	NA	8.3	9.8	9.5	11.3
	Commonly or standard procedure	NA	2.5	3.1	2.4	2.9
How would you characterize the risk associated with loan administration:	Low	NA	64.5	63.1	65.5	62.1
	Medium	NA	30.8	31.6	31.2	32.3
	High	NA	4.7	5.3	3.4	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	73.0	89.4	86.2	87.8	87.6
	Frequently enough to warrant notice	22.3	8.1	11.4	10.5	10.2
	Commonly or standard procedure	4.7	2.6	2.5	1.8	2.3
To what extent does the institution fail to require a material principal reduction before renewing term loans:[2]	Never or infrequently	62.5	76.2	75.7	76.7	77.4
	Frequently enough to warrant notice	32.7	20.2	20.9	20.8	19.3
	Commonly or standard procedure	4.8	3.6	3.4	2.5	3.3
To what extent do the institution's written lending policies differ from actual practices:	Never or infrequently	71.5	79.8	77.5	78.1	74.1
	Frequently enough to warrant notice	22.7	17.1	19.4	19.0	22.2
	Commonly or standard procedure	5.8	3.1	3.1	2.9	3.7
BUSINESS LOANS						
To what extent does the institution make business loans without a clear and reasonably predictable repayment source:	Never or infrequently	85.2	82.9	84.1	85.1	85.1
	Frequently enough to warrant notice	12.6	13.8	13.8	13.5	13.8
	Commonly or standard procedure	2.3	3.3	2.0	1.4	1.1
To what extent does the institution make business loans to borrowers who lack documented financial strength to support such lending:	Never or infrequently	78.6	81.0	80.4	79.9	77.9
	Frequently enough to warrant notice	18.9	16.6	17.8	18.6	20.2
	Commonly or standard procedure	2.5	2.3	1.8	1.6	1.9
With respect to asset-based business loans, to what extent does the institution fail to monitor collateral:	Never or infrequently	83.6	77.7	78.6	80.6	79.2
	Frequently enough to warrant notice	14.4	19.5	19.0	17.3	19.4
	Commonly or standard procedure	2.0	2.7	2.4	2.2	1.4
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	63.2	75.2	76.1	75.2	73.6
	Frequently enough to warrant notice	29.7	19.4	20.1	20.4	21.9
	Commonly or standard procedure	7.2	5.4	3.9	4.4	4.5
To what extent are construction loans made without consideration of repayment sources other than the project being funded:	Never or infrequently	74.3	87.3	88.1	88.0	87.4
	Frequently enough to warrant notice	22.6	11.6	10.5	10.5	10.7
	Commonly or standard procedure	3.1	1.1	1.5	1.4	2.0
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	83.7	88.0	87.9	87.7	87.5
	Frequently enough to warrant notice	14.1	11.3	9.5	11.1	10.6
	Commonly or standard procedure	2.2	0.8	2.5	1.1	1.9
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	86.0	89.8	87.9	89.5	87.7
	Frequently enough to warrant notice	11.8	9.9	11.2	9.6	10.8
	Commonly or standard procedure	2.2	0.3	0.9	0.9	1.5
To what extent does the institution fund, or defer, interest payments during the term of its commercial construction loans:	Never or infrequently	79.8	83.9	87.1	86.0	85.2
	Frequently enough to warrant notice	14.4	10.2	9.7	7.9	9.6
	Commonly or standard procedure	5.9	5.9	3.2	6.1	5.2

[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

		9/98	3/99	9/99	3/00	9/00
		Weighted Six-Month Period Ending:				
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	88.4	88.8	88.8	87.7
	Frequently enough to warrant notice	NA	9.7	10.8	9.7	11.0
	Commonly or standard procedure	NA	1.9	0.4	1.6	1.4
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	85.1	88.9	87.7	88.7	87.7
	Frequently enough to warrant notice	12.3	8.9	10.5	10.2	10.6
	Commonly or standard procedure	2.6	2.2	1.8	1.1	1.7
To what extent does the institution make interest-only, extended amortization, or negative amortization permanent commercial real estate loans:	Never or infrequently	92.8	93.4	93.4	92.7	92.5
	Frequently enough to warrant notice	7.2	6.5	5.9	6.9	6.8
	Commonly or standard procedure	0.0	0.1	0.7	0.5	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	83.9	81.8	83.0	82.2
	Frequently enough to warrant notice	12.7	12.9	15.3	13.9	15.0
	Commonly or standard procedure	2.7	3.2	2.9	3.1	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	89.6	92.1	90.1	91.4	88.7
	Frequently enough to warrant notice	9.9	7.7	9.5	8.2	10.1
	Commonly or standard procedure	0.6	0.1	0.4	0.4	1.2
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	86.8	91.0	89.3	88.3	86.6
	Frequently enough to warrant notice	11.5	5.5	9.3	9.2	9.9
	Commonly or standard procedure	1.7	3.5	1.4	2.5	3.5
To what extent does the institution qualify borrowers for home equity credit based on initially-discounted loan rates:	Never or infrequently	98.3	98.0	98.1	99.0	97.3
	Frequently enough to warrant notice	1.7	1.8	1.3	0.4	2.1
	Commonly or standard procedure	0.0	0.2	0.5	0.6	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	NA	87.8	86.0	85.7	87.3
	Frequently enough to warrant notice	NA	10.6	11.9	13.1	11.6
	Commonly or standard procedure	NA	1.7	2.1	1.2	1.1
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	51.2	58.6	55.0	54.6	55.6
	Frequently enough to warrant notice	27.7	23.0	22.8	24.7	23.0
	Commonly or standard procedure	21.1	18.4	22.2	20.7	21.4
To what extent are agricultural loans being made based on unrealistic cash flow projections:	Never or infrequently	84.3	85.7	84.5	86.3	89.5
	Frequently enough to warrant notice	12.6	13.0	14.3	12.2	9.8
	Commonly or standard procedure	3.1	1.3	1.2	1.5	0.7
How would you characterize the change in the level of the institution’s agricultural related carryover debt since the last examination:	Sharp decline	0.8	1.6	2.0	3.1	1.9
	Moderate decline	17.6	9.6	7.0	11.3	13.7
	No change	55.8	56.4	48.7	52.7	58.4
	Moderate increase	23.5	29.0	37.2	31.0	25.1
	Sharp increase	2.4	3.4	5.1	2.0	1.0
CONSUMER LOANS						
To what extent does the institution make ‘secured’ consumer loans without adequate collateral protection:	Never or infrequently	82.6	86.5	85.0	85.7	86.3
	Frequently enough to warrant notice	13.5	10.9	13.1	12.1	11.9
	Commonly or standard procedure	3.9	2.6	1.9	2.2	1.8
To what extent does the institution make consumer loans to borrowers who lack demonstrable ability to repay:	Never or infrequently	79.5	83.7	83.3	83.1	82.4
	Frequently enough to warrant notice	16.0	13.9	14.7	14.4	15.4
	Commonly or standard procedure	4.5	2.5	2.0	2.5	2.2
CREDIT CARD LOANS						
Have the institution’s underwriting practices for new credit card loans materially changed since the last examination:	Yes	10.9	9.2	6.4	2.1	2.1
	No	89.1	90.9	93.6	97.9	97.9
Are underwriting practices for new credit cards:[1]	Substantially tighter	NA	1.3	0.8	0.7	1.2
	Moderately tighter	9.4	7.2	3.3	0.5	0.5
	Moderately looser	1.5	0.0	1.5	1.0	0.0
	Substantially looser	NA	0.7	0.9	0.0	0.3
How would you characterize the level of risk associated with the institution’s current underwriting practices for new credit card loans:	Low	NA	74.4	72.6	80.1	78.5
	Medium	NA	24.7	24.2	18.5	20.0
	High	NA	0.9	3.2	1.4	1.5
How would you characterize the level of risk associated with the institution’s credit card portfolio:	Low	NA	76.5	74.4	79.5	78.3
	Medium	NA	23.5	22.5	19.7	19.8
	High	NA	0.0	3.1	0.9	1.8
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	0.0	84.4	100.0	60.0
	Frequently enough to warrant notice	NA	0.0	15.6	0.0	40.0
	Commonly or standard procedure	NA	0.0	0.0	0.0	0.0

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

Federal Deposit Insurance Corporation
Washington, DC 20429-9990

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

- Coverage: 1,124 FDIC-supervised banks.
- Period: Reports filed between April 1, 2000, and September 30, 2000.
- 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, 5 percent; assets between $300 million and $1 billion, 12 percent; assets between $25 million and $300 million, 68 percent; assets less than $25 million, 15 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.