
Joint Release

**Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Office of Thrift Supervision**

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Banking Agencies Issue Guidance On Supervision of Subprime Lending

The federal banking regulatory agencies today issued expanded guidance intended to strengthen the examination and supervision of institutions with significant subprime lending programs.

The guidance, issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision, supplements previous subprime lending guidance issued on March 1, 1999. It principally applies to institutions with subprime lending programs that equal or exceed 25 percent of an institution's Tier 1 regulatory capital.

For purposes of this guidance, "subprime lending" refers to programs that target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, or bankruptcies. Such programs may also target borrowers with questionable repayment capacity evidenced by low credit scores or high debt-burden ratios.

Major issues discussed in the guidance include:

- **Allowance for loan and lease losses (ALLL)** -- Analysis and documentation standards for the ALLL.
- **Capital Adequacy** -- Factors to consider when determining the level of capital necessary to support subprime lending programs.
- **Loan Review and Classification** -- Guidelines for the review and classification of individual loans and portfolio segments during examinations.
- **Cure Programs** -- Documentation requirements for re-aging, renewing, or extending delinquent subprime accounts.

(more)

- **Predatory Lending** – Identification of potentially abusive lending practices subject to examiner criticism.

The agencies recognize that responsible subprime lending can expand credit access for consumers and offer institutions the opportunity to earn attractive returns. However, institutions are expected to recognize both the elevated risk levels posed by participation in subprime lending programs and the enhanced risk management standards needed to successfully engage in this activity.

While this guidance is intended primarily to assist examiners in their evaluation of subprime lending programs, the agencies are also distributing it to banks and thrifts so they are fully aware of supervisory expectations regarding risk management processes, allowance for loan loss levels, and capital adequacy for institutions engaging in such programs.

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[Attachment](#)

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