FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-45-2005
May 24, 2005

HOME EQUITY LENDING
Credit Risk Management Guidance

Summary: The federal bank, thrift and credit union regulatory agencies have jointly issued the attached guidance, which promotes sound risk management practices for home equity lines of credit and loans.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Compliance Officer
Chief Lending Officer

Related Topics:
Part 323 Appraisals
Interagency Appraisal and Evaluation Guidelines
Part 365 Real Estate Lending Standards
Interagency Guidance on High LTV Residential Real Estate Lending
Uniform Retail Credit Classification and Account Management Policy

Attachment:
Credit Risk Management Guidance for Equity Lending

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Note:
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Highlights:

The agencies have found that in some cases credit risk management practices for home equity lending have not kept pace with the product's rapid growth and eased underwriting standards.

The attached home equity lending guidance outlines the agencies' expectations for sound underwriting standards and effective credit risk management practices for a financial institution's home equity lending activity.

The guidance describes sound risk management systems for:

- Product Development and Marketing
- Origination and Underwriting
- Third-Party Originations
- Collateral Valuation Management
- Account Management
- Portfolio Management
- Operations, Servicing, and Collections
- Secondary Market Activities
- Portfolio Classifications, Allowance for Loan and Lease Losses (ALLL), and Capital

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The Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision and the National Credit Union Administration (collectively, the agencies) have issued the attached guidance to promote sound risk management practices at financial institutions with home equity lending programs.

The agencies have found that in some cases credit risk management practices for home equity lending have not kept pace with the product's rapid growth and eased underwriting standards. Active portfolio management is especially important for financial institutions that project or have already experienced significant growth or concentrations in higher risk products, such as high loan-to-value, limited documentation and no documentation interest-only, and third-party generated loans.

Home equity lending can be conducted in a safe and sound manner with appropriate risk management systems. This guidance outlines the agencies' expectations for sound underwriting standards and effective credit risk management practices for a financial institution's home equity lending activity.

Michael J. Zamorski
Director
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