

RESIDENTIAL REAL ESTATE LENDING

Core Analysis Procedures

Examiners are to consider these procedures but are not expected to perform every procedure at every institution. Examiners should complete only the procedures relevant for the institution's activities, business model, risk profile, and complexity. If needed, based on other identified risks, examiners can complete additional procedures not included below. References to laws, regulations, supervisory guidance, and other resources are not all-inclusive.

References

- *Interagency Guidelines Establishing Standards for Safety and Soundness (FRB: [12 CFR 208, Appendix D-1](#); FDIC: [12 CFR 364, Appendix A](#))*
- *Interagency Guidelines for Real Estate Lending Policies (FRB: [12 CFR Part 208, Appendix C](#); FDIC: [12 CFR Part 365, Appendix A](#))*
- *Appraisal regulations (FRB: [12 CFR 225.61-67](#); FDIC: [12 CFR Part 323](#))*
- *Interagency Appraisal and Valuation Guidelines (FRB: [SR 10-16](#); FDIC: [FIL-82-2010](#))*
- *Frequently Asked Questions on the Appraisal Regulations and the Interagency Appraisal and Evaluation Guidelines (FRB: [SR 18-9](#); FDIC: [FIL-62-2018](#))*
- *Interagency Advisory on Use of Evaluations in Real Estate-Related Financial Transactions (FRB: [SR 16-5](#); FDIC: [FIL-16-2016](#))*
- *Classification Treatment for High Loan-to-Value (LTV) Residential Refinance Loans (FDIC: [FIL-19-2009](#))*
- *Working with Residential Borrowers: FDIC Encourages Institutions to Consider Workout Arrangements for Borrowers Unable to Make Mortgage Payments (FDIC: [FIL-35-2007](#))*
- *Interagency Guidance on Nontraditional Mortgage Product Risks, and Addendum to Credit Risk Management Guidance for Home Equity Lending (FDIC: [FIL-89-2006](#); FRB: [SR 06-15](#))*
- *Interagency Statement on Supervisory Approach for Qualified and Non-Qualified Mortgage Loans. (FDIC: [FIL-59-2013](#), FRB: [SR 13-20](#))*
- *Uniform Retail Credit Classification and Account Management Policy (FRB: [SR 00-8](#); FDIC: [FIL 40-2000](#))*
- *Interagency Guidance on High LTV Residential Real Estate Lending (FRB: [SR 99-26](#); FRIC: [FIL-94-99](#))*

Findings and Conclusions

Document findings and conclusions here, and include a summary of these findings and conclusions in the appropriate Primary or Supplemental modules.

Preliminary Review

1. **Review documents that may identify issues relating to Residential Real Estate (RRE) lending, such as:**
 - **Prior examination reports and work papers**
 - **Examination planning memoranda and file correspondence**
 - **Loan review reports**
 - **Internal and external audit reports**
 - **Loan committee minutes**
 - **Documentation of action taken by management to correct prior deficiencies**

<p>2. Obtain and analyze internal management reports relating to RRE lending, such as:</p> <ul style="list-style-type: none"> • Lending activities (e.g. product, volume, location) • Origination source • Sales activities¹
<p>3. Determine whether management originates, plans to originate, or acquires subprime, Alt-A, or other nontraditional mortgage loans. If so, consider completing the subprime lending examination procedures in conjunction with this module.²</p>
<p>4. Determine whether management uses third-party originators (brokers or correspondents). If so, assess management’s oversight of this area, including the reporting structure.</p>
<p>Policy Considerations</p>
<p>5. Determine whether lending policies, procedures, and practices for RRE mortgages are appropriate for the size and nature of the bank’s real estate lending activities. Factors to consider include:</p> <ul style="list-style-type: none"> • Size and financial condition of the bank • Expertise and size of lending staff • Concentrations of risk • Compliance with all real estate related laws and regulations • Market conditions • Other internal and external factors • Origination (direct or indirect) • Pricing • Servicing • Collection
<p>6. Determine whether loan policies are appropriate for the bank’s mortgage lending activities. Appropriate real estate lending policies generally address:³</p>

¹ If significantly engaged in secondary mortgage market activities (e.g., mortgage servicing, warehousing operations, and loan origination for resale), consider completing the Mortgage Banking or Abbreviated Mortgage Banking module(s).

² Refer to the Subprime Lending and Nontraditional Mortgage Lending modules.

³ Refer to the Real Estate Lending Standards for additional information (FDIC: 12 CFR Part 365; FRB: 12 CFR Part 208, Subpart E).

<ul style="list-style-type: none"> • Diversification guidelines and limits for real estate loans by type and geographic market • Procedures for approving, documenting, and monitoring loans that do not conform to internal policy or underwriting standards • Prudent loan-to-value ratios and guidelines • Loan administration procedures and documentation requirements
<p>7. Determine whether the board periodically reviews and approves the policy. Appropriate underwriting standards generally address all relevant credit factors, such as:</p> <ul style="list-style-type: none"> • Repayment capacity of the borrower (e.g., debt-to-income levels and debt service coverage) • Value of the mortgaged property (e.g., LTV limits and types of property) • Overall credit worthiness of the borrower (e.g., credit scores) • Level of equity investment in the property (e.g., minimum cash down payments) • Secondary repayment sources • Any additional collateral or credit enhancements (e.g., guarantees, mortgage insurance, or take-out commitments) • Maximum loan amounts by type of property • Maximum loan maturities and amortizations by type of property
<p>8. Determine whether policies and procedures appropriately address collection and foreclosure activities or strategies associated with RRE lending.⁴</p>
<p>9. Determine whether policies and procedures appropriately address home equity line of credit (HELOC) products,⁵ such as how the products are:</p> <ul style="list-style-type: none"> • Originated • Priced • Underwritten • Monitored (post-origination) • Renewed
<p>Administration</p>
<p>10. Determine whether management understands and appropriately monitors market conditions, such as:</p> <ul style="list-style-type: none"> • New and existing home sales activity, prices, and trends • Demographic and economic indicators, such as population and employment trends • Zoning requirements

⁴ Refer to the Mortgage Banking module for additional information on foreclosure procedures.

⁵ Refer to the Home Equity Lending Examination Documentation module for additional information.

<ul style="list-style-type: none"> • Current and projected vacancy, construction, and absorption rates • Current and projected lease terms, rental rates, and sales prices, including concessions • Current and projected operating expenses for residential income properties • Valuation trends, including discount and direct capitalization rates • Speculation or land-development activity⁶
<p>11. Review the bank’s accounting for RRE mortgage loan fees, points, and costs to determine whether the practices are consistent with accounting standards.⁷ Also, review the bank’s organizational chart to assess the related reporting structure and responsibilities.</p>
<p>12. Review the bank’s escrow analysis reports and assess the escrow accounting and practices. Consider the impact of negative escrow account balances. If not escrowed, determine how the bank monitors the status of real estate tax payments, insurance, homeowner association dues, or any other payments that may affect credit risk.</p>
<p>13. Review the status of any mortgage insurance claims to determine collectability. Consider the bank’s compliance with any procedures for filing claims imposed by the applicable mortgage insurance company.</p>
<p>14. Determine whether the institution uses pool insurance as a credit risk enhancement to mitigate the risk of high loan-to-value (HLTV) loans.</p>
<p>Documentation</p>
<p>15. Review and assess the loan file documentation. Appropriate documentation generally includes information, such as:</p> <ul style="list-style-type: none"> • Applications • Income and asset verifications⁸ • Credit reports • Mortgages (or deeds of trust) • Notes

⁶ Generally accomplished by observing new construction, investments in existing structures, absorption of developed lots, and developed-lot inventories.

⁷ The ASC 310-20 review may have been completed during the earnings review.

⁸ E.g., pay stubs, W-2 forms, bank statements, Fannie Mae Verification of Employment or Verification of Deposit forms.

- **Attorney’s opinion or title insurance**
- **Appraisals or collateral evaluations**
- **Evidence of appropriate insurance⁹**
- **Underwriting Transmittal or similar document¹⁰**
- **Commitment letter (i.e., the final signed version)**
- **Settlement Statement (Closing Disclosure)**
- **Evidence of appropriate approvals (i.e., within officer lending authority, nonconforming)**

16. Determine whether the loan files contain sufficient information regarding additional pledged collateral or credit enhancements.

Credit Analysis

17. Evaluate management’s efforts to mitigate risks from significant exposures in residential real estate lending. Consider risk mitigation strategies for markets experiencing significant or rapid changes.¹¹ Determine whether pertinent information is appropriately used in allowance for loan and lease losses (ALLL) or allowance for credit losses (ACL)¹² for loan and leases calculations and capital planning.

Liquidity Considerations

18. Determine whether loans meet secondary market guidelines. Evaluate exit strategies in the event secondary market conditions change and loans held for sale cannot be sold.¹³

19. Assess staff expertise and experience pertaining to secondary market sales. Evaluate the bank’s related policies and procedures, if any.

End of Core Analysis.

⁹ E.g., property, liability, and flood insurance.

¹⁰ May be an automated underwriting printout from Desktop Underwriter or Loan Prospector.

¹¹ E.g., material price appreciation or decline.

¹² The ACL for loans and leases is the term used for those banks that have adopted ASU 2016-13, replacing the ALLL used under the incurred loss methodology.

¹³ Coordinate the evaluation with the liquidity and mortgage banking reviews.