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OTS 98-63 - OTS Warns Thrifts High LTV Lending can be Very Risky

Office of Thrift Supervision

NEWS

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OTS Warns Thrifts High LTV Lending Can Be Very Risky

WASHINGTON, D.C., Aug. 27, 1998 - The Office of Thrift Supervision (OTS) said today that high loan-to-value (LTV) home mortgage lending entails greater risks than more traditional types of secured and unsecured consumer loans, and when made in large concentrations or without adequate controls, such activity by thrifts may present a supervisory concern. OTS defines high LTV loans as first or junior lien mortgages with LTVs in excess of 90 percent, that are not covered by mortgage insurance or government guarantees.

In a new thrift bulletin (TB 72), OTS cites a concern over the increase in high LTV lending, particularly loans with LTVs well in excess of 100 percent, which are often made for debt consolidation rather than home financing purposes. While few thrifts currently are making such loans in high volumes, OTS determined that it was appropriate to make the industry and its staff more fully aware of the products' risks. The bulletin details risks involved with high LTV lending and provides guidance for thrifts that are or may become engaged in such lending.

"When current regulations and guidance on LTVs were developed in 1992, no one was thinking about them in terms of 100 percent, let alone 125 percent or more, which we are seeing today," said OTS Deputy Director Richard Riccobono. "Most of the high LTV loans are being made by private, non-regulated lenders, but now we have a growing concern about OTS-regulated institutions getting into this type of lending."

"These loans entail risks that are different from more traditional home mortgage and consumer loans," Riccobono said. "They have characteristics, such as higher dollar amounts and longer payment terms, that present more risks to the lender than credit cards. Because of their unique characteristics, it is important that lenders offering these products understand the risks and take steps to carefully address them."

OTS recognizes that high LTV home loans may be useful in helping financially burdened borrowers consolidate and manage their debts. Also, lenders may want to help first-time home buyers by making high LTV loans that include financing of closing costs. Thrifts that make these loans should limit their investment and control the added risk through the adoption of prudent underwriting standards, sound credit management, and effective servicing and collections procedures.

According to the Interagency Guidelines attached to 12 C.F.R. 560.100-101, federally insured depository institutions should limit their investment in all high LTV loans (including those secured by commercial and other nonresidential property) to 100 percent of total capital. The bulletin states that examiners will review a thrift's investment in such loans to determine compliance with 12 C.F.R. 560.100-101, and the Interagency Guidelines. As a thrift's higher LTV loans approach 100 percent of capital, it will come under increased scrutiny by OTS. Thrifts that fail to adequately monitor and control the risks associated with their high LTV lending will be subject to supervisory action, which could include the establishment of lower investment limits. If, in the examiner's judgment, credit deficiencies could result in losses that would seriously erode the thrift's capital, the thrift will be cited for unsafe and unsound banking practices, OTS said.

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS' mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents call PubliFax at 202/906-5660, or visit the OTS web page at www.ots.treas.gov.

View Thrift Bulletin TB 72, High Loan-to-Value Home Mortgage Lending

(Adobe Acrobat Document)