

Press Releases

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OTS 99-70 - Joint Release, Federal Regulators Advise Banks and Thrifts About Risks In High Loan-to-Value Residential Real Estate Lending

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

OTS 99-70
For immediate release
October 12, 1999

Federal Regulators Advise Banks and Thrifts About Risks In High Loan-to-Value Residential Real Estate Lending

WASHINGTON -- Federal financial institution regulators today advised banks and thrifts about the risks associated with high loan-to-value (LTV) residential real estate loans. The guidance issued today reminds insured institutions that the Interagency Guidelines for Real Estate Lending Policies adopted in 1992 apply to these transactions.

The 1992 Guidelines advised institutions that they would come under increased supervisory scrutiny as the total of all high LTV loans approached 100 percent of total capital. Today's guidance describes steps regulators may take if an institution's high LTV loan portfolio exceeds 100 percent of total capital. Supervisory action might include a request to sell high LTV loans, raise additional capital or submit a plan to achieve compliance with the capital limitation.

High LTV residential loans carry higher risks than more traditional residential real estate loans. However, the regulators advised banks and thrifts that high LTV residential loans -- which represent 90 percent or more of the value of the residence held as collateral -- can be profitable when risks are effectively managed and loans are priced on that risk.

The regulators also recognize that high LTV residential loans can serve a useful purpose in helping financially burdened borrowers consolidate and manage their debts. The regulators said that today's guidance is not intended to -- and should not -- restrict access to mortgage credit for affordable housing for low and moderate income borrowers. For example, high LTV home loans may be used to help first time home buyers by financing closing costs or rehabilitation costs into their mortgage. There is also no intent in today's guidance to restrict financing of well-managed community development or rehabilitation programs.

The guidance issued today listed four primary credit risks associated with this type of loan: increased risk of default and losses; inadequate collateral; longer terms, creating longer periods of exposure; and limited default remedies.

This guidance is intended to remind financial institutions of their obligations to effectively manage the risks in their high LTV loan portfolios and to comply with fair lending and consumer protection laws and regulations.

[Joint Guidance](#)
[TB 72a](#)