

Press release

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Ref no: 22/2012

18 April 2012

FSB releases principles for sound residential mortgage underwriting practices

The Financial Stability Board (FSB) published today [Principles for Sound Residential Mortgage Underwriting Practices](#).

Problems arising from poorly underwritten residential mortgages contributed significantly to the global financial crisis. As the global crisis demonstrated, the consequences of weak residential mortgage underwriting practices in one country can be transferred globally through securitisation of mortgages underwritten to weak standards. As such, it is important to have sound underwriting practices at the point at which a mortgage loan is originally made.

The FSB Principles provide a framework for jurisdictions to set minimum acceptable underwriting standards so as to limit the risks that mortgage markets pose to financial stability and to better safeguard borrowers and investors. The Principles will help to strengthen residential mortgage underwriting practices and help supervisors to more effectively monitor and detect any erosion of underwriting practices particularly when the housing market is booming. Given that the underlying risks can differ across jurisdictions, the Principles are high-level rather than aimed at setting detailed international standards.

The Principles span the following areas, some of which proved to be particularly weak during the global financial crisis:

- (i) effective verification of income and other financial information;
- (ii) reasonable debt service coverage;
- (iii) appropriate loan-to-value ratios;
- (iv) effective collateral management; and
- (v) prudent use of mortgage insurance.

The report also sets out an implementation framework through which jurisdictions can apply minimum residential mortgage underwriting standards, and describes tools that could be used to monitor and supervise these standards.

Mark Carney, Chairman of the FSB, said “The financial crisis clearly revealed the systemic consequences of irresponsible lending practices. Implementation of these principles across the FSB membership will ensure lending practices remain sound through the cycle, protecting consumers and promoting financial stability.”

Adair Turner, Chairman of the FSB Standing Committee on Supervisory and Regulatory Cooperation, said “Had these principles been in place prior to the financial crisis, markets would have been much better protected from the problems of poor quality or unaffordable lending.”

Guillermo Babatz, President of the Mexican National Banking and Securities Commission and chair of the team of experts that drafted the Principles, said “The fact that these principles have been agreed to and will be monitored globally will help national supervisors resist pressures to turn a blind eye to lax mortgage underwriting practices when the credit markets are booming.”

Notes to editors

In March 2011 the FSB published a [thematic review on residential mortgage underwriting and origination practices](#). Based on the findings of the review, six recommendations were set out, one of which asked the FSB to develop an international principles-based framework for sound underwriting practices. The principles were prepared by a team of experts drawn from FSB member institutions and led by Guillermo Babatz, President, Mexican National Banking and Securities Commission, who also chaired the team that conducted the thematic review on mortgage underwriting and origination practices. [Draft principles](#) were issued for public consultation in October 2011.

After providing sufficient time for implementation of the principles, the FSB will conduct a follow-up review to assess progress made in implementing the framework.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB is chaired by Mark Carney, Governor of the Bank of Canada. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.