

Press release

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FSB releases consultation paper on principles for sound residential mortgage underwriting practices

The Financial Stability Board (FSB) is today launching a public consultation on its draft Principles for Sound Residential Mortgage Underwriting Practices. Problems arising from poorly underwritten residential mortgages contributed significantly to the global financial crisis. As the 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 As such, it is important to have sound underwriting practices at the point at which a mortgage loan is originally made.

In response to the crisis, a number of FSB members have encouraged stricter underwriting practices so as to limit the risks that mortgage markets pose to financial stability and to better safeguard borrowers and investors. Internationally agreed principles will help to strengthen residential mortgage underwriting practices and help supervisors to more effectively monitor and detect the 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 detailed international standards.

To help inform the final internationally agreed principles, the FSB welcomes comments on the consultative document. Responses should be sent to fsb@bis.org by **Friday 9 December 2011**.

The final set of principles will be released in early 2012.

Notes to editors

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 Joint Forum, in its January 2010 *Review of the Differentiated Nature and Scope of Financial Regulation*, recommended improved oversight of the residential mortgage market, including greater consistency in underwriting standards across different types of originators, and suggested that the FSB consider establishing a process to review sound underwriting practices. In March 2011, the FSB published a [thematic review on residential mortgage](#)

[underwriting and origination practices](#) across the FSB membership, including recent actions taken by national authorities to promote sound practices. Since there are currently no internationally agreed standards to act as a benchmark, the review instead conducted a comprehensive survey of existing practices in these areas and drew lessons going forward.

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

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. 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.