SUBPRIME 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)
- *Interagency Lending Principles for Offering Responsible Small-Dollar Loan* (FRB:SR 20-14 / CA 20-8; FDIC: FIL-58-2020)
- *Home Equity Lines of Credit (HELOC) Nearing Their End of Draw Period* (FRB: SR 14-5; FDIC: FIL-33-2014)
- *Classification Treatment for High Loan-to-Value (LTV) Residential Refinance Loans* (FDIC: FIL-19-2009)
- *Home Equity Lines of Credit Consumer Protection and Risk Management Considerations when Changing Credit Limits and Suggested Best Practices* (FDIC: FIL-58-2008)
- *Statement on Subprime Mortgage Lending* (FRB: SR 07-12 / CA 07-3; FDIC: FIL-62-2007)
- *Working with Residential Borrowers: FDIC Encourages Institutions to Consider Workout Arrangements for Borrowers Unable to Make Mortgage Payments* (FDIC: FIL-35-2007)
- *Home Equity Lending Credit Risk Management Guidance* (FRB: SR 05-11; FDIC: FIL-45-2005)
- *Subprime Lending* (FRB: SR 01-4; FDIC: FIL-9-2001)
- *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: FDIC: FIL-94-99)
- *Interagency Guidance on Subprime Lending* (FRB: SR 99-6; FDIC: FIL-20-99)
- *Subprime Lending* (FDIC: FIL-44-97)

Considerations and Background

These procedures are intended for use with other applicable lending modules. Coordinate use of these procedures with other examination procedures to avoid duplication. For example, if the institution makes subprime credit card loans, these procedures should be used with the Credit Card Activities module.

This module is directed toward subprime lending programs. The term "program" refers to the process of acquiring subprime loans on a regular or targeted basis, either through origination or purchase, to be held in the institution's own portfolio or accumulated and packaged for sale (refer to the Securitization module when necessary). If the institution does not have a recognized subprime lending program, but is systematically targeting the subprime market through processes that employ tailored marketing, underwriting standards, or risk selection, examiners should discuss with management whether these activities constitute a subprime lending program.

The module is not directed toward individual loans that exhibit subprime characteristics. Subprime borrowers typically have weak credit histories which may include delinquencies, charge-offs, judgments, or bankruptcies. Subprime borrowers may also have low repayment capacity (as measured by credit scores, debt-to-equity ratios, income-to-expense ratios, etc.) at the time of loan origination or purchase. If management asserts it is not engaging in subprime lending, but has materially lowered underwriting standards without a commensurate upgrade in risk management systems and practices, examiners should address their concerns in the Report of Examination.

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. Identify previous concerns by reviewing prior examination reports, file correspondence, and audits. Also review outstanding litigation, consumer complaints, and prior compliance examination reports for information concerning subprime lending or issues relating to the Consumer Financial Protection Bureau's ability-to-repay and qualified mortgage rule.
2. Develop a preliminary view of financial trends. Review Uniform Bank Performance Reports (UBPRs), financial statements, and other applicable data to identify material factors (levels, changes, or trends) that may require analysis or help in scoping this review.
3. Determine the primary responsibilities of the board of directors, board committees, and executive management relating to subprime lending.[1]
4. Determine whether any material changes (e.g., strategic, operational, or economic) occurred or are expected that may affect subprime lending. Discuss the changes and implications with management.
5. Identify loan portfolios (e.g., residential mortgages, credit card, small dollar loans, and automobile loans) that management considers subprime, and identify other potential subprime portfolios.[2] Areas of consideration include: • **Underwriting guidelines, such as high debt-to-income ratios, low credit scores, and weak or limited repayment histories**

[1] Through discussions with management or by reviewing applicable policies.
[2] By discussing with management, reviewing applicable minutes, and reviewing applicable policies.

- **Interest rates and fees on loans**[3]
- **Target markets, such as individuals who have previously declared bankruptcy**
- **Portfolios with high servicing costs**
- **Brokered loans**

6. Determine whether subprime-related lending activities are outsourced. If so, obtain a list of third parties used. Third parties may include brokers; marketing, collection, or servicing firms; correspondents; affinity partners; or information system vendors.

Policy Considerations

7. Review the strategic or business plan. Generally, satisfactory plans:

- **Describe how subprime products offered or planned are consistent with the overall business strategy and risk tolerances, and how the initiative(s) are progressing as envisioned by the plan (i.e., volume, growth, performance, and markets served)**
- **Set forth clear performance objectives, including identifying target markets, customers, and performance benchmarks (e.g., profitability and asset quality) for each segment and the whole portfolio**
- **Address risks, such as credit, operating, liquidity, compliance, interest rate, legal, and reputation risk**
- **Document reasonable projections and assumptions in light of economic, market, and competitive conditions; management expertise; technological and operational capacity; and capital support**
- **Establish a clear solicitation and origination strategy that allows for assessment of underwriting performance**
- **Address complaints and customer retention issues**

8. Assess subprime lending policies and procedures.

- **Determine whether policies and procedures are appropriate and conform with the Safety and Soundness Standards, including, but not limited to:**
    - **Lending authority for individual officers, supervisors, and loan committees**[4]
    - **Underwriting parameters (e.g., acceptable loan term and amount, debt-to-income ratio, loan-to-collateral value ratio, and minimum credit score) that enable the institution to make an informed lending decision**
    - **Assessing the ability of the borrower to repay the indebtedness in a timely manner, considering the borrower's overall financial condition and resources, prior to credit commitment**

[3] High interest rates and fees are common and relatively easily identifiable characteristics of subprime lending. However, high interest rates and fees by themselves do not constitute subprime lending.
[4] If management maintains that it is not engaging in subprime lending but, instead lowered underwriting standards, segmentation of the loan portfolio may be necessary.

- **Credit or risk grade criteria that contain minimum and maximum criteria for each grade, where the lowest grade is not a "catch-all" that includes everything below the maximum criteria, and each credit grade is based on appropriate internal underwriting and pricing guidelines**
    - **Criteria for verifying an applicant's information, including identity, address, income, and employment information, consistent with applicable law and safety and soundness standards**
    - **Underwriting practices that provide for consideration, prior to credit commitment, of the borrower's overall financial condition and resources and willingness and ability to repay as agreed**
    - **Control systems (risk management, loan review, audit, and quality assurance) to provide for appropriate oversight**
    - **Credit file documentation requirements (e.g., applications, offering sheets, loan and collateral documents, financial statements, credit reports, and credit memo) to enable the institution to make an informed lending decision and to assess risk**
    - **Concentrations of credit (e.g., geographic, product type, and source of origination/recourse)**
    - **Content and frequency of management reports**
    - **Loan review and allowance for loan and lease losses (ALLL), or allowance for credit losses (ACL)[5] for loans and leases, when applicable methodology that recognizes subprime loans as a specific risk exposure**
    - **Prudent asset classification and charge-off criteria[6]**
- **Generally, appropriate policies and procedures additionally address:**
    - **Permissible types of subprime loans**
    - **A clear definition of subprime loans (e.g., borrowers below a certain FICO score)**
    - **Risk-layering features (e.g., subprime borrower with option ARM loan feature or with reduced documentation lending)**
    - **Portfolio targets and limits for each credit grade or class**
    - **A framework for pricing and profitability analysis that considers all loan costs, including origination, funding, administrative/servicing, collection, expected charge-offs, and capital**
    - **Collateral guidelines regarding required or eligible collateral; monitoring values, including initial and periodic valuations; processes for selecting and managing a list of approved appraisers and persons who perform evaluations; and verification of collateral information**
    - **Procedures to approve, track, and monitor loan policy exceptions**
    - **Third-party management processes, including measures to ensure loans originated through these processes meet the institution's lending standards, as well as initial and ongoing due diligence of third-party performance**
    - **Cure programs allowed, if any, and requirements for eligibility that consider items discussed in the Uniform Retail Credit Classification and Account Management Policy (Uniform Policy)**
    - **Billing, collection, foreclosure, and repossession procedures**

[5] The allowance for credit losses for loans and leases or ACL for loans and leases is the term used for those institutions that adopted ASU 2016-13, replacing the allowance for loan losses used under the incurred loss methodology.
[6] Although subprime loans are generally a subset of the retail credits discussed in the Uniform Policy, the elevated risk characteristics in subprime loans may warrant more conservative policies based on specific portfolio analysis.

Internal Controls
9. Evaluate controls to foster adherence to policies and procedures.
10. Determine whether management tracks policy exceptions, such as: • **Underwriting** • **Collateral** • **Documentation,** • **Credit grading** • **Pricing** • **Credit score overrides** • **Over-limit accounts**
11. Determine whether management tracks exceptions by individual accounts as well as aggregate trends.
12. Determine whether management tracks the source of exceptions such as employee, dealer, broker, or other origination channel.
13. Determine whether the information tracked regarding exceptions is used to: • **Measure overall risk and risk by origination channel** • **Adjust policies and procedures** • **Identify training needs** • **Provide input for personnel evaluations and compensation programs**
14. Determine whether new product development processes include appropriate approvals prior to implementation.
15. Determine whether data integrity is regularly tested.
16. Determine whether management monitors consumer complaints for significant or recurring issues and appropriate disposition.

17. Determine whether compensation programs include incentives for originations, and if so, assess controls to maintain consistency with sound underwriting practices.
Audit or Independent Reviews
18. Assess the scope and frequency of audits and independent reviews.
19. Assess the process for tracking and following up on outstanding audit and independent review findings.
Information and Communication Systems
20. Determine whether key measurements are monitored as a whole and for subprime portfolio segments, including monitoring of: • **Profitability** • **Growth** • **Policy overrides** • **Delinquencies** • **Losses** • **Credit scores** • **Debt-to-income ratios** • **Loan-to-value ratios** • **Concentrations**
21. Determine whether management segments the portfolio for monitoring. Appropriate segmentation may be by product, vintage, marketing initiative, credit risk grade, and source of account acquisition.
22. Determine whether management uses vintage analysis, lagged delinquency and loss reports, and migration analysis to monitor the effects of portfolio growth and seasoning.
23. Assess management information systems (MIS) for managing vendors.

24. Ascertain the accuracy of the MIS for reporting past due status.
Portfolio Analysis
25. Analyze the portfolio using management reports (e.g., vintage analysis, lagged delinquency, loss reports, and migration analysis). Review program delinquency and charge-off rates for evidence of borrower ability to repay the indebtedness in a timely manner. (In the case of originate-to-distribute business models, review overall program performance.)
26. Assess the credit risk composition of the subprime portfolio. Subcategories of subprime loans can reflect significantly different degrees of risk, from A-grade residential real estate loans to a D-grade used auto loans.
27. Evaluate the extent to which management reviews changes in customers' creditworthiness. This information promotes proactive account management activities (e.g., line increase or decrease, early intervention, counseling, credit grade increase or decrease, and cross-selling).
28. Determine whether management ascertains the reason(s) for poor loan performance by analyzing underperforming and defaulted loans.
29. Assess management's subprime marketing practices.
30. Assess the impact of cure programs on reported portfolio performance and profitability.
31. Determine whether management, board, and regulatory reporting is accurate and timely.
32. Determine whether existing loans conform to specified account management standards (e.g., over-limits, line increases, reductions, cancellations, re-scoring, and collections).

33. Assess the accuracy of roll rates and other loss forecasting methods used to determine ALLL levels, or ACL, when applicable.
Transaction-Level Testing
34. Review a sample of loans made during the review period from various sub-prime portfolio segments, including accounts originated in the past quarter for adherence with: • **Underwriting standards, including ability to repay** • **Risk-selection standards** • **Documentation standards** • **Pricing guidelines** • **Classification guidelines** • **Other applicable lending policies and procedures**
35. Consider reviewing a sample of account histories to assess practices related to re-agings, authorizations, and fees.
Portfolio Quality
36. Determine whether concentrations in geography, customer base, source of account, or loan type exist, and identify the unique risks posed by any of the portfolio segments or concentrations. Evaluate the degree of risk and consider mitigating factors.
37. Determine whether any consumer complaints or outstanding litigation reflect significant weaknesses in the institution's subprime activities.
38. Determine whether products marketed to loan customers (e.g., insurance policies or fees charged in connection with the loans) comprise a significant portion of the loan amount advanced. If significant, assess the potential impact on repayment.
39. Evaluate the level of subprime loan classifications. • **Subprime loans are generally evaluated and classified considering the criteria discussed in the Uniform Policy.** • **Consider the institution's migration analysis when determining Substandard, Doubtful, and Loss classifications. Such analysis may support more stringent classification. For example, if the**

migration analysis reflects that most of the subprime credit card loans past due 90 days or more are eventually charged-off, it may be appropriate to classify such loans as Loss.

- **Consider management and control weaknesses. If management and control weaknesses are the primary contributing factors to deterioration in portfolio quality, consider adversely classifying the entire portfolio, or portions thereof, to reflect the severity of credit quality problems. Subprime portfolios with a material volume of loans 90 days or more past due may indicate weaknesses in underwriting, collection, or other control procedures.**

Allowance for Loan and Lease Losses (ALLL),or ACL for loans and leases, when applicable

40. Determine whether the ALLL or ACL analysis appropriately documents the factors considered in evaluating subprime portfolios, such as:[7]

- **Portfolio segmentation methods**
- **Loss forecasting techniques and assumptions**
- **Definitions of ratios and model computations**
- **Baseline loss information**
- **Rationale for adjustments to historical experience**
- **Comparison of forecasted loss rates to actual loss rates, with significant variances explained**

41. Determine whether the institution's ALLL or ACL methodology:

- **Segments subprime lending portfolios by risk exposure such as specific product, vintage, origination channel, risk grade, loan-to-value ratio, or other relevant groupings**
- **Considers changes in underwriting standards, collection practices, cure programs, foreclosure practices, and repossession practices**
- **Considers subprime portfolio growth**
- **Considers economic factors such as delinquency trends of portfolios that have not gone through an economic downturn**
- **Ensures absorption of all estimated credit losses on outstanding balances over the current operating cycle, typically 12 months[8]**

Servicing and Collections

42. Assess the structure, management, and staffing of the servicing and collections department and determine:

- **The structure (e.g., centralized at one office or decentralized)**

[7] Under ASU 2016-13, the institution should not only support the "rationale for adjustments to historical loss experience," but also support its reasonable and supportable forecast. In addition, a comparison of forecasted loss rates to actual loss rates may be used to determine the institutions reasonable and supportable forecast.
[8] This would not be applicable for those institutions that adopted ASU 2016-13, as the absorption of credit losses would be over the expected life of the loans.

- **Whether management and staff receive necessary training and possess a level of expertise commensurate with the size, risk, and complexity of the program**
- **Whether management collects appropriate data to determine staffing levels**

43. Determine whether the servicing department sets up new loans accurately and timely.

44. Evaluate the institution's servicing and collection strategies. Below are examples of some common communication techniques:

- **Early and frequent institution-initiated communication with customers**
- **Welcome calls within two days after origination to review loan terms, answer questions, and verify information**
- **Monthly statements instead of payment coupon books**
- **Reminder calls or emails several days before the payment due date**
- **Late payment calls or emails shortly after a missed payment date**
- **Technology based collections**
- **Default letters**

45. Evaluate cure programs and their features such as loan restructures, modifications, re-agings, deferrals, and fixed payment plans. Specifically, determine whether management:

- **Establishes reasonable eligibility requirements based on a borrower's renewed willingness and ability to repay**
- **Obtains new verification of employment and current financial information to recalculate comprehensive debt-to-income ratios, and such documentation demonstrates sufficient borrower capacity to support orderly repayment**
- **Refreshes credit scores or updates bureau reports**
- **Documents discussion with the customer in file memos**
- **Establishes appropriate restructure terms**
- **Accurately reports workout transactions that qualify as troubled debt restructurings on the Call Report**
- **Allows practices where third parties purchase or fund loan payments to cure loan delinquencies**
- **Monitors the performance of loans subject to cure programs to determine their effectiveness and the impact on the past due ratio**

Scoring Models

46. Determine whether models are custom or vendor supplied, and identify their use (e.g., approvals, pricing, loss estimates, and collections).

47. Determine whether the development process is consistent with management's risk appetite and desired level of subprime loans.

48. Review the documentation supporting the scoring models and determine whether:

- **Models are empirically derived and statistically sound**
- **Scoring is based on the behavioral and credit characteristics of the subprime population targeted for the products offered**
- **Assumptions and customer characteristics (e.g., credit scores) are reviewed frequently and updated to effectively predict credit performance**
- **Models consider delinquencies and losses over varying economic conditions**

49. Evaluate the monitoring and maintenance process and determine whether:

- **Models are actively monitored, adjusted, and periodically revalidated**
- **Systems reflect current underwriting standards and risk parameters**
- **Management maintains an adequate chronology log to record significant events related to the credit acquisition process for each subprime portfolio**
- **Scoring systems are supervised and maintained in accordance with vendor-provided specifications and recommendations**
- **Models are adjusted to account for unexpected events**

Profitability

50. Assess the process for pricing products as well as for projecting and tracking profitability, and determine whether:

- **The process considers all costs associated with the loan, such as origination costs, administrative/servicing costs, expected charge-offs, funding costs, and capital**
- **Profitability analysis includes portfolio segments such as product, credit risk grade, vintage, marketing initiative, source of account acquisition, and account customer**

51. Review the most recent fiscal year-end and current year-to-date financial information for each subprime product, and compare to budgets and forecasts to identify significant variances.

52. Determine the type and level of fee-based income received and review trends.

53. Consider whether fees are a recurring and viable source of revenue.

54. Review subprime portfolio profitability, and assess the impact of product performance, plans, and modifications. If applicable, consider the impact of gain-on-sale accounting on earnings.

Capitalization

Subprime lending is a higher risk activity; therefore, institutions engaging in such lending generally hold higher capital and reserves against such portfolios. For example, capital could be one and one half to three times greater than for non-subprime assets of a similar type. Subprime assets could be assigned higher risk weights when calculating risk-based capital.

55. Review the methodology for determining whether additional capital or reserves are needed to offset the additional risk inherent in subprime lending activities. Determine whether the methodology is well documented, reasonable, periodically updated, and considers the following:

- **Liquidity, market, legal, compliance, reputation, and operating risks, which contribute to a higher risk profile compared to traditional institution activities**
- **Capital levels commensurate with the trend and volatility in expected losses and the unanticipated losses over one or more economic downturns**
- **Type, quality, liquidity, and amount of collateral**
- **Credit risk composition of the portfolio (e.g., A, B, C, D)**
- **Staff expertise in subprime lending**
- **Resources available to service and collect the subprime portfolio**
- **Dependence on securitization activities for funding subprime loans**
- **Concentrations in subprime loans**
- **Asset type, income, or funding source concentrations**
- **Growth trends**
- **Reliance on underwriting techniques untested in an economic downturn (*e.g.*, credit scoring)**
- **Economic conditions in the institution's market area**
- **The impact of planned underwriting or marketing changes on the credit characteristics of the portfolio**
- **Deterioration in the average credit quality over time due to adverse selection or retention**
- **The extent current capitalization consists of residual assets or other volatile components**

56. Determine whether the capital adequacy analysis includes stress scenarios to estimate unexpected losses in subprime lending pools. Appropriate analysis and determination of capital adequacy generally include consideration of such scenarios.

57. Review the documentation regarding stress scenario analysis of subprime loan pools. Appropriate stress scenario analysis generally is conservative and includes estimates of the portfolio's susceptibility to deteriorating economic, market, and business conditions. Stress scenarios generally include sensitivity analysis of basic assumptions such as the following:

- **Delinquency rates**
- **Loss rates**
- **Recovery rates**
- **Changing prepayment rates**
- **Changes in credit score distribution**
- **Changes in capital market demand for whole loans or asset-backed securities supported by subprime loans**

58. Determine whether the institution's stress scenario model, if used, is periodically and comprehensively validated.

Third Parties[9]

59. Determine whether the institution performs and documents due diligence reviews prior to engaging the services of a third party and ongoing thereafter.

60. Determine whether the due diligence process regarding third parties includes:[10]

- **Verifying whether third parties have the operational and financial capacity and expertise to perform the services**
- **Performing background checks on third parties' principals and key individuals such as institution and trade references, credit reports, and criminal activities**
- **Periodically analyzing financial statements of third parties and their principals to verify ability to perform on recourse commitments**
- **Developing controls such as recourse provisions for loan/account originators, customer information security, and access to institution information**
- **Periodically reviewing third parties' operations such as staffing levels, marketing plans, sales techniques, and customer service practices**
- **Reviewing audit reports of third parties**
- **Conducting periodic on-site inspections**
- **Performing quality assurance reviews that monitor compliance with the service agreement, the institution's policies and procedures, and laws and regulations**

[9] For additional information, refer to the Third-Party Risk module.
[10] For third-party firms, management typically maintains contingency plans if the third party performs critical functions for the institution and retains current and complete contracts.

61. Determine whether the due diligence prior to purchasing loans determines that the loans meet the institution's underwriting criteria and considers the servicing cost and expected losses when evaluating expected profits.

62. Determine whether management tracks the quality of accounts obtained through each channel. Appropriate tracking generally includes the following items:

- **Delinquencies**
- **Charge-offs**
- **Profitability**
- **Documentation**
- **Collateral and underwriting exceptions**
- **Compliance with laws**
- **Consumer complaints**

63. Determine whether conflicts of interest exist in the third parties' duties. For example, sound internal controls preclude a loan originator who provides recourse for poorly performing loans purchased by the institution from processing payments or determining the past due status of the loans.

64. Determine whether affiliate or insider relationships exist with third parties and, if so, perform procedures under the Related Organizations module.

65. Assess concentration risks in the customer base and origination sources.

66. Determine whether management considers its legal responsibility arising from the consumer compliance risks associated with outsourcing.

67. Determine whether the institution obtains legal reviews of contracts.

68. Review contracts. Contracts with third-party service providers typically include:

- **Clearly defined duties, responsibilities, and authorities, including services to be performed and time frames**

- **Fee structure, with fees tied to performance of the services described in the contract**
- **Remedies to compensate the institution if the third party fails to perform as agreed**
- **Prohibitions against assigning the contract or delegating responsibilities to a third party**
- **Criteria for acceptability of accounts solicited (i.e., underwriting guidelines)**
- **Specified ownership of account relationships/data**
- **Allowable use of the name and logo of each party**
- **Frequency and means of communication and monitoring of each party**
- **Records each party must maintain, as well as provisions allowing access to those records**
- **Frequency and type of financial statements and audit reports required**
- **Warranties if applicable consumer and other laws are not followed**
- **Right of the institution to perform audits and on-site inspections**
- **Contingency plans by the vendor should it fail to perform any critical function for the institution's program**
- **Customer information security**

69. Determine whether loans are held on balance sheet for a short time before sale to a third party. If so, ascertain the dollar volume of activity over a given period of time and whether the third party is required to maintain a deposit account at the institution with balances covering typical daily activity over a certain number of days.

70. Determine whether quality control procedures provide assurance that loans sold meet investors' requirements according to the contracts (i.e., recourse, representations, and warranties).

Managerial Effectiveness

71. Review actions taken by management to address audit, independent review, and examination findings.

72. Determine whether management provides adequate staffing that includes specialized expertise and appropriate training in light of the subprime portfolio's risk profile, including loan type(s), volume, performance, and future plans.

73. Determine whether management periodically evaluates whether the subprime program meets profitability expectations, underwriting standards, and performance goals.

74. Analyze management's response to adverse performance trends, such as higher than expected charge-offs, delinquencies, prepayments, customer complaints, expenses, or lower than expected profits.
75. Determine whether management's response to significant policy variations is appropriate.
76. Determine whether the level of policy exceptions results in higher levels of delinquencies and losses or indicates weaknesses in underwriting.
77. Interview staff regarding their knowledge and use of policies and procedures.
78. Determine whether compensation programs promote behaviors that are consistent with legal and regulatory requirements, portfolio objectives, and risk tolerances.
79. Determine whether the subprime program exhibits predatory or abusive lending characteristics such as:[11] • **Loans approved based on the assets of the borrowers rather than on borrowers' ability to repay obligations** • **Loans made by enticing borrowers to refinance repeatedly to charge points and fees each time loans are refinanced (loan flipping)** • **Fraud or deception to conceal the true nature of loan obligations, ancillary products, or total costs of loans**
End of Core Analysis.

[11] **Examiners should refer loans with such characteristics to their respective agency's consumer protection specialists for additional review.**