PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC Reports Changing Rate Environment Challenges Interest Rate Risk Management for Certain Banks; Industry Risk Levels Acceptable Overall

The FDIC's summer 2005 issue of ***Supervisory Insights*** issued today reports that rising interest rates and a flattening yield curve could pressure net interest margins, particularly for liability-sensitive banks with increased exposure to long-term assets.

The article, "A Changing Rate Environment Challenges Bank Interest Rate Risk Management," notes that aggregate industry trends – specifically higher levels of exposure to long-term assets, concentrations in mortgage-related assets, and a greater reliance on non-core funding sources, including those exhibiting optionality – suggest heightened vulnerability to rising interest rates.

It is difficult to draw conclusions about the level of interest rate risk based solely on off-site information. Therefore, the article emphasizes off-site and industry-wide analysis must be joined with on-site examination findings to accurately assess a bank's interest rate risk exposure and the effectiveness of its risk management processes. The results of on-site examinations identify certain areas where banks can improve risk measurement and management processes. Overall, however, few banks are exhibiting material concerns related to sensitivity to interest rate risk.

"A changing rate environment can present challenges to FDIC-insured depository institutions. However, the vast majority of banks and their management teams are capably measuring and controlling the level of interest rate risk," noted FDIC Chairman Don Powell. "Our examiners routinely monitor those banks that may be particularly sensitive to interest rate risk because of their asset/liability mix or weaknesses in risk management processes."

This issue of ***Supervisory Insights*** identifies three other areas of current supervisory emphasis at the FDIC. The first in a series of articles, "Enforcement Actions against Individuals in Fraud-Related Cases," provides an overview of when and how the FDIC

FDIC

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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issues enforcement actions against individuals. Subsequent articles will feature case studies that highlight the critical role of enforcement actions in the FDIC's efforts to fight fraud. "Fair Lending Implications of Credit Scoring Systems" recommends a framework for examiners to follow in a fair lending examination when a credit score is one of the criteria a bank considers when making credit decisions. "The Changing Landscape of Indirect Automobile Lending" describes the effects of increasing competition in automobile financing on underwriting practices and looks at how lax underwriting and internal controls have prompted closer regulatory scrutiny of portfolio performance.

The "From the Examiner's Desk" feature discusses the unique risks posed by technology service providers to insured institutions and recommends tools examiners can use to strengthen their review of these companies. "Accounting News" describes the accounting guidance for evaluating whether impairments of investment securities are other than temporary.

Supervisory Insights provides a forum for discussing how bank regulation and policy are put into practice in the field, sharing best practices and communicating about the emerging issues that bank supervisors are facing. The journal is available online by visiting the FDIC's Web site at www.fdic.gov. Suggestions for topics for future issues, requests for permission to reprint articles, and requests for print copies can be e-mailed to supervisoryjournal@fdic.gov.