PRESS RELEASE

Federal Deposit Insurance Corporation

FOR IMMEDIATE RELEASE
December 21, 2006

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FDIC Reports on Bank Securitization Activities and Market Risk Management

As banks and savings institutions increasingly turn to the capital markets to finance their activities, the techniques they use to evaluate liquidity and market risk also continue to evolve, according to the Fall 2006 issue of ***FDIC Outlook***.

Today's report summarizes how financial innovation and information technology have widened institutions' options for funding their activities through off-balance sheet securitization structures. Total U.S. issuances of mortgage-backed and other asset-backed securities peaked in 2003 at just under $3.5 trillion — a level almost five times higher than in 1997 — and remained above $2.7 trillion in 2005. During this decade, much of this activity has been facilitated by repackaging these securities into collateralized debt obligations (CDOs). While CDOs offer the opportunity for increased diversification of risks, today's report also cites analysts' concerns about the complexity of CDOs and the potential for losses in the event of financial market disruptions.

The shift away from traditional balance sheet funding to off-balance sheet funding through securitization also has changed how banks assess liquidity risk. The second article in this issue of *FDIC Outlook* explores the relevance of traditional balance sheet measures of liquidity and discusses a dynamic cash flow method that may provide a more accurate assessment of liquidity risk.

The third article describes strategies banks have used to manage their net interest margins under the various yield curve environments that have been observed in recent years. Analysis of these strategies shows the tradeoffs that banks face between boosting net interest income and potentially increasing their exposure to market risk in their balance sheet positions.

The Fall 2006 edition of *FDIC Outlook* is available on the Web at www.fdic.gov/bank/analytical/regional/index.html.

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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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