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FDIC's *Supervisory Insights* Reports How Banks Can Mitigate Risks Associated With Third-party Arrangements

How banks can manage risks associated with third-party arrangements for products and services is reported in the FDIC's summer 2007 issue of *Supervisory Insights*, released today. Other topics covered are the need for vigilance toward mortgage fraud, challenges in maintaining wind insurance, the electronic exchange of documentation in bank examinations, and recent decisions affecting the accounting for split-dollar life insurance.

Many banks provide products and services though arrangements with third parties. "Appropriately managed third-party arrangements can assist banks in attaining strategic objectives," said Sandra Thompson, Director of the FDIC's Division of Supervision and Consumer Protection. "I hope this edition of *Supervisory Insights* helps promote understanding of the importance of managing the potential risks that can exist with these arrangements." In "Third-Party Arrangements: Elevating Risk Awareness," the authors show how failure to manage these risks can expose a financial institution to financial loss, regulatory action and loss of customers.

Consumers and investors took advantage of low interest rates during the housing boom of the early 2000's to purchase, upgrade and invest in residential real estate. The proliferation of nontraditional mortgage loan products also bolstered the goal of achieving the "American Dream" of homeownership and increased the dollar amount of mortgages financed. While all of these factors helped spur the housing market, they also helped create fertile ground for mortgage fraud. Results, examples and mitigation steps are shared in "Staying Alert to Mortgage Fraud."

"Wind Hazard Insurance: No Longer Just a Technical Exception" explores the impact of the rising cost, and, in some cases, the lack of availability, of wind hazard insurance, with a focus on the situation in Florida. Hazard insurance has played an important role in mitigating the risk of loss of collateral value due to catastrophic damage, and

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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examiners have traditionally cited inadequacies in collateral insurance coverage as technical exceptions when reviewing loan files. But in the current environment, potentially widespread issues regarding insurance availability and affordability are forcing some banks to take a hard look at their collateral management policies.

Regular features in *Supervisory Insights* include "From the Examiner's Desk," which examines the impact of the electronic exchange of data and other information on the examination process; "Accounting News," which addresses recent decisions of the Financial Accounting Standards Board's Emerging Task Force and the decisions' effect on the accounting for split-dollar life insurance; and "Regulatory and Supervisory Roundup," which provides an overview of the most recently released supervisory guidance.

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 face. The journal is available online at the FDIC's Web site at http://www.fdic.gov/regulations/examinations/supervisory/insights/index.html. Suggestions for topics for future issues and requests for permission to reprint articles should be e-mailed to supervisoryjournal@fdic.gov. Requests for print copies should be e-mailed to publicinfo@fdic.gov.