PRESS RELEASE

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Transparency in the Structured Finance Market; Risks, Fallout from Nontraditional Mortgages are Focus of FDIC's *Supervisory Insights*

The current turmoil in the financial markets, the housing market downturn and other credit quality issues have intensified the challenges now confronting regulators and bankers, according to the FDIC's Summer 2008 issue of *Supervisory Insights*, released today. This issue highlights three areas of concern: the need for greater transparency in the structured finance market; the risks and fallout associated with growth in nontraditional mortgage products, such as hybrid adjustable-rate mortgages (ARMs); and the inappropriate use of interest reserves.

"FDIC-insured institutions now face a much different, more formidable set of conditions than they did even a year ago," said Sandra L. Thompson, Director of the FDIC's Division of Supervision and Consumer Protection. "Articles appearing in this issue of *Supervisory Insights* hone in on fundamental concerns for bank management and regulators today, along with helpful information on how to mitigate these problem areas."

Unprecedented growth and innovation in the structured finance market have focused attention on the need for greater transparency in certain securitization products. "Enhancing Transparency in the Structured Finance Market" reviews information available about these products and concludes that concern about complexity and the lack of disclosure is warranted. The article highlights actions the author believes would improve transparency and summarizes existing supervisory guidance regarding banks' investments in rated securities.

Underwriting weaknesses and potentially deceptive marketing practices are considered key contributing factors to the current problems in the U.S. mortgage market. "Hybrid ARMs: Addressing the Risks, Managing the Fallout" describes these underwriting and marketing practices and discusses key principles for protecting consumers and managing the risks of hybrid adjustable-rate mortgage products.

As the problems in the mortgage market continue, examiners are more frequently seeing the potentially inappropriate use of interest reserves. "A Primer on the Use of

Interest Reserves" describes the use of interest reserves in Acquisition, Development and Construction (ADC) lending, examines the risks this underwriting practice could present, and identifies "red flags" that should alert lenders to potential problems at each stage of the ADC cycle.

This issue's "Accounting News" feature examines communication of internal control deficiencies as a part of the audit process. The article provides examples of internal control deficiencies, explains how these deficiencies should be evaluated and communicated as part of external auditor reports, and discusses how examiners can use the auditors' internal control reports.

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 on the FDIC's Web site at http://www.fdic.gov/regulations/examinations/supervisory/insights/index.html. Suggestions for future topics 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.