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FDIC Report Reviews Role of Trust Preferred Securities

One important theme of recent reforms in response to the financial crisis is the need for banking organizations to have stronger capital positions to weather periods of economic stress. As described in "Trust Preferred Securities and the Capital Strength of Banking Organizations" in the current issue of ***Supervisory Insights***, released today, domestic and international legislative and regulatory reforms will end reliance on these hybrid securities and help move the U.S. banking industry to firmer footing.

"Evidence suggests that financial institutions relying on trust preferred securities had a heightened risk profile and failed more often than those whose tier 1 capital did not include these instruments ," said Sandra L. Thompson, Director, Division of Supervision and Consumer Protection. "The experience with these instruments helped set the stage for reforms mandated by the Collins Amendment to the Dodd-Frank Act and recent agreements by the Basel Committee for Banking Supervision that will strengthen the capital position of banking organizations going forward," added Director Thompson.

In addition, "Managing Agricultural Credit Concentrations" highlights best practices relating to agricultural lending and management of agricultural credit concentrations that will help farm banks manage the inherent uncertainties in the agricultural sector.

This issue of ***Supervisory Insights*** also looks at how insured institutions are responding to the recent period of economic and competitive challenges. Data collected and summarized in "Insights from the FDIC's Credit and Consumer Products/Services Survey" show that institutions are implementing a number of operational changes, including tightening underwriting standards and making use of third-party providers to offer new and innovative products.

And finally, "Senior Life Settlements: A Cautionary Tale" provides an overview of the development of the senior life settlements (SLS) market and discusses the significant risks associated with SLS transactions to financial institutions, investors, and consumers, including the potential for fraud.

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.