Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429-9990

Financial Institution Letter
FIL-55-2009
September 25, 2009

Proposed Correspondent Concentration Risks Guidance

Agencies Request Comment

Summary:

The federal financial institution regulatory agencies are requesting comment on the attached proposed *Correspondent Concentration Risks* guidance. The proposed guidance addresses supervisory matters relating to identifying, monitoring, managing and performing appropriate due diligence of correspondent concentration risks.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Lending Officer
Chief Financial Officer
Chief Compliance Officer

Attachment:
Correspondent Concentration Risks, Proposed Guidance - PDF (PDF Help)

Contact:
Senior Examination Specialist Beverlea S. Gardner at BGardner@FDIC.gov or (202) 898-3640

Note:
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2009/index.html.

To receive FILs electronically, please visit http://www.fdic.gov/about/subscriptions/fil.html.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights:

- Correspondent concentrations represent a lack of risk diversification, adding a dimension of risk that management should consider when formulating strategic plans and internal risk limits.
- The agencies generally have considered credit exposures greater than 25 percent of Tier 1 capital as concentrations, whereas funding exposures as low as 5 percent of an institution's total liabilities could be considered a concentration.
- The proposed guidance establishes that management should:
  - implement procedures for identifying the totality of an institution's aggregate credit and funding exposures to other institutions and their affiliates;
  - specify what information, ratios or trends will be reviewed for each correspondent;
  - set prudent correspondent concentration limits, establish ranges or tolerances for each factor being monitored, and develop plans for managing risks when these limits, ranges or tolerances are met or exceeded, either individually or collectively; and
  - conduct an independent analysis before entering into any credit or funding transactions with another financial institution.
- This guidance would supplement existing guidance.