Letter from the Director

The banking industry continues to recover gradually from the effects of the financial crisis and subsequent recession, showing gains in profitability, improvements in asset quality, and an uptick in lending activity. However, other challenges are now facing bankers and regulators. This issue of ***Supervisory Insights*** features articles that address three diverse areas of banking that are relevant to both community banks and larger banking institutions.

The recent environment of sustained low interest rates has led some banks to alter balance sheets in a reach for higher yields. "Industry Trends Highlight Importance of Effective Interest-Rate Risk Management" describes how these changes in the banking industry's asset mix and funding profiles have resulted in increased interest-rate risk (IRR) exposure. The article discusses supervisory expectations for IRR management and describes strategies banks can use to evaluate and mitigate this exposure.

FDIC risk management examiners have completed the Credit and Consumer Products/Services Survey since October 2009 to assess the level of risk and quality of underwriting on various types of credit. "Lending Trends: Results from the FDIC's Credit and Consumer Products/Services Survey" summarizes recent Survey results related to loan growth, credit underwriting practices, concentration risk, and the use of loan workouts.

The FDIC approved its new capital rule in July 2013. The rule, which takes effect January 1, 2015, includes a new set of deductions and adjustments from capital. As part of the FDIC's outreach efforts to explain the rule, "The New Basel III Definition of Capital: Understanding the Deductions for Investments in Unconsolidated Financial Institutions" describes one of the more complex aspects of the rule dealing with holdings of capital instruments of other institutions. The article also provides examples to show the mechanics of the related calculations.

We hope you read all the articles in this issue and find them to be a valuable resource going forward. We welcome your feedback and ideas for topics in future issues. Please e-mail your comments and suggestions to SupervisoryJournal@fdic.gov.

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