

# Regulatory and Supervisory Roundup

This section provides an overview of recently released regulations and supervisory guidance, arranged in reverse chronological order. Press Release (PR) or Financial Institution Letter (FIL) designations are included so the reader may obtain more information.

Subject	Summary
<p><b>New Government-Wide ID Theft Home Page Established (PR-33-2007, April 23, 2007)</b></p>	<p>The Federal Deposit Insurance Corporation (FDIC), a participant in the government-wide Identity Theft Task Force, provided a direct link to the new, centralized government website on identity theft. The new site, <a href="http://www.idtheft.gov">www.idtheft.gov</a>, was launched April 23, 2007. Initially, the site will provide the task force's strategic plan. The plan, which represents the input of 17 federal agencies, including the FDIC, sets out recommendations to prevent identity theft, to help identity theft victims recover from those crimes, and to prosecute and punish identity theft-related criminals.</p>
<p><b>Institutions Encouraged to Work with Mortgage Borrowers Who Are Unable to Make Their Payments (PR-32-2007, FIL-35-2007, April 17, 2007)</b></p>	<p>The FDIC, Federal Reserve Board (FRB), Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), and National Credit Union Administration (collectively, the federal financial institution regulatory agencies) issued a statement encouraging financial institutions to work with homeowners who are unable to make mortgage payments. Prudent workout arrangements that are consistent with safe and sound lending practices are generally in the long-term best interests of both the financial institution and the borrower. Institutions will not face regulatory penalties if they pursue reasonable workout arrangements with borrowers. See <a href="http://www.fdic.gov/news/news/press/2007/pr07032.html">www.fdic.gov/news/news/press/2007/pr07032.html</a>.</p>
<p><b>Comments Sought on Proposed Model Privacy Form (FIL-34-2007, April 16, 2007; PR-24-2007, March 21, 2007)</b></p>	<p>The federal financial institution regulatory agencies, the Securities and Exchange Commission (SEC), the Federal Trade Commission, and the Commodity Futures Trading Commission jointly published a notice of proposed rulemaking (NPR) seeking comment on a model privacy form financial institutions could use to satisfy the privacy notice requirements of the Gramm-Leach-Bliley Act (GLBA). The proposed privacy form would also provide consumers with the opportunity to limit certain information-sharing practices, as permitted by the GLBA and the Fair Credit Reporting Act. Comments on the proposed rule were due by May 29, 2007. See <a href="http://www.fdic.gov/news/inactive-financial-institution-letters/2007/fil07034.html">www.fdic.gov/news/inactive-financial-institution-letters/2007/fil07034.html</a>.</p>
<p><b>Supervisory Policy on Identify Theft Issued (FIL-32-2007, April 11, 2007)</b></p>	<p>The FDIC issued its <i>Supervisory Policy on Identity Theft</i>. The policy describes the characteristics of identity theft. It also sets forth the FDIC's expectations that institutions under its supervision take steps to detect and prevent identity theft and mitigate its effects to protect consumers and help ensure the safe and sound operation of financial institutions. See <a href="http://www.fdic.gov/news/news/financial/2007/fil07032a.html">www.fdic.gov/news/news/financial/2007/fil07032a.html</a>.</p>
<p><b>Comments Sought on Expanded Examination Cycle for Certain Institutions (PR-29-2007, April 3, 2007)</b></p>	<p>The FDIC, FRB, OCC, and OTS (collectively, the federal bank and thrift regulatory agencies) requested public comment on proposed interim rules expanding the range of small institutions eligible for an extended 18-month on-site examination cycle. The proposed interim rules, which became effective May 10, 2007, allow well-capitalized and well-managed banks and savings associations with up to \$500 million in total assets and a composite rating of 1 or 2 to qualify for an 18-month (rather than a 12-month) on-site examination cycle. Until recently, only institutions with less than \$250 million in total assets could qualify for an extended 18-month on-site examination cycle. The proposed interim rules also revise the provisions governing the on-site examination cycle for the U.S. branches and agencies of foreign banks. The public comment period closed May 10, 2007. See <a href="http://www.fdic.gov/news/press/2007/pr07029.html">www.fdic.gov/news/press/2007/pr07029.html</a>.</p>

**Comments Requested on Proposed Statement on Subprime Mortgage Lending (FDIC-PR-18-2007, March 2,**

May 7, 2007. See [www.fdic.gov/news/news/press/2007/pr07018a.html](http://www.fdic.gov/news/news/press/2007/pr07018a.html).

**Comments Requested on Proposed Supervisory Guidance for Basel II (PR-13-2007, February 15, 2007; FIL-20-2007; February 28, 2007; Federal**

The federal bank and thrift regulatory agencies sought comment on proposed guidance describing the agencies' expectations for banking organizations that would adopt the Advanced Internal Ratings-Based Approach (IRB) for credit risk and the

**Institutions and Insured Foreign Branches in Risk Category I (FIL-19-**

magnitude of the adjustment should be. These guidelines are intended to further clarify the analytical processes and the controls applied to them in making assessment rate adjustments. Comments on the proposed guidelines

[www.fdic.gov/news/news/financial/2007/fil07007.html](http://www.fdic.gov/news/news/financial/2007/fil07007.html).

**Supervisory Policy on Predatory Lending (FIL-6-2007, January 22, 2007)**

**Final Statement Concerning Elevated Risk Complex Structured Finance Activities (PR-3-2007, January 6, 2007)**

**2007; FIL-26-2007, March 9, 2007)**

The federal financial institution regulatory agencies sought comment on the proposed *Statement on Subprime Mortgage Lending* (Subprime Statement). The Subprime Statement addresses the risks and emerging issues relating to subprime mortgage lending practices, most notably certain adjustable rate mortgage lending products. Comments were due by

**Register, Vol. 72, No. 39, p. 9084, February 28, 2007)**

Advanced Measurement Approaches (AMA) for operational risk under the proposed new Basel II capital framework. The proposed guidance also establishes the process for supervisory review and the implementation of the capital adequacy assessment process under Pillar 2 of the Basel II framework. Comments on the proposed guidance were due May 29, 2007. See [www.fdic.gov/news/news/financial/2007/fil07020.html](http://www.fdic.gov/news/news/financial/2007/fil07020.html).

**Comments Requested on Proposed Guidelines on Assessment Rate Adjustment for Large**

**2007, February 27, 2007; Federal Register, Vol. 72, No. 34, p. 7878, February 21, 2007)**

The FDIC sought comment on a proposed set of ten guidelines that would govern the process for determining when an assessment rate adjustment is appropriate and what the

were due March 23, 2007. See [www.fdic.gov/news/news/financial/2007/fil07019.html](http://www.fdic.gov/news/news/financial/2007/fil07019.html).

**Certain Reporting Requirements Repealed (FIL-7-2007, January 26, 2007)**

The FDIC issued a final rule repealing FDIC Part 349, Reports and Public Disclosure of Indebtedness of Executive Officers and Principal Shareholders to a State Nonmember Bank and Its Correspondent Banks. The final rule became effective on December 22, 2006. See

The FDIC issued its *Supervisory Policy on Predatory Lending*, which describes certain characteristics of predatory lending and reaffirms that such activities are inconsistent with safe and sound lending and undermine individual, family, and community economic well-being. The statement describes the FDIC's supervisory response to predatory lending, including a list of policies and procedures that relate to consumer lending standards. See [www.fdic.gov/news/news/financial/2007/fil07006a.html](http://www.fdic.gov/news/news/financial/2007/fil07006a.html).

The federal financial institution regulatory agencies and the SEC issued a final statement on the complex structured finance activities of financial institutions. The statement describes the types of internal controls and risk management procedures that should help financial institutions identify, manage, and address the heightened legal and reputational risks that may arise from certain complex structured finance transactions. See

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[www.fdic.gov/news/news/press/2007/pr07003a.html](http://www.fdic.gov/news/news/press/2007/pr07003a.html)

## **Comments Requested on Draft Guidelines on Small-Dollar Loans**

The FDIC sought comment on proposed guidelines from state nonmember banks to encourage them to offer affordable small-dollar loan products. FDIC-supervised institutions that offer these products in a responsi-

**December 27, 2006; *Federal Register*, Vol. 71, No. 218, p. 66098, November 13, 2006)**

The FDIC issued the final rule amending FDIC Part 328, Advertisement of Membership. Recent amendments to

**Comments Requested on Modifications to the Risk-Based Capital Framework (Basel IA) (PR-112-2006, December 5, 2006; FIL-111-2006, December 26, 2006;**

framework proposed in the Basel II NPR. The comment period closed March 26, 2007. See [www.fdic.gov/news/news/financial/2006/fil06111.html](http://www.fdic.gov/news/news/financial/2006/fil06111.html).

their deposit systems so that the FDIC may calculate deposit insurance coverage quickly in the event of an institution's failure. Comments were due March 13, 2007. See [www.fdic.gov/news/news/financial/2006/fil06109.html](http://www.fdic.gov/news/news/financial/2006/fil06109.html).

**Revised Policy Statement Issued on**

**(PR-107-2006, December 4, 2006)**

ble, safe, and sound manner may receive favorable consideration under the Community Reinvestment Act. Comments were due February 2, 2007. See [www.fdic.gov/news/news/press/2006/pr06107a.html](http://www.fdic.gov/news/news/press/2006/pr06107a.html).

**Final Rule Amending Part 328, Advertisement of FDIC Membership (FIL-112-2006,**

the Federal Deposit Insurance Act required the FDIC to prescribe an official sign that all FDIC-insured depository institutions would be required to display. The rule accomplishes that requirement and provides for other changes to the regulation. The final rule took effect November 13, 2006. See [www.fdic.gov/news/news/financial/2006/fil06112.html](http://www.fdic.gov/news/news/financial/2006/fil06112.html).

***Federal Register*, Vol. 71, No. 247, p. 77446, December 26, 2006)**

The federal bank and thrift regulatory agencies jointly issued an NPR and sought comment on possible modifications to the risk-based capital standards for all domestic banks, bank holding companies, and savings associations that are not subject to the risk-based capital

**Comments Requested on Large-Bank Deposit Insurance Determination Modernization Proposal (PR-111-2006, December 5, 2006; FIL-109-2006, December 21, 2006; *Federal Register*, Vol. 71, No. 239, p. 74857, December 13, 2006)**

The FDIC, through an advance notice of proposed rulemaking (ANPR), sought comment on whether and how the largest insured depository institutions should be required to modify

**the Allowance for Loan and Lease Losses (PR-115-2006, December 13, 2006; FIL-105-2006, December 13, 2006)**

The federal financial institution regulatory agencies issued a revised *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (ALLL) and supplemental frequently asked questions. The policy statement revises and replaces the banking agencies' 1993 policy statement on the ALLL. See [www.fdic.gov/news/news/financial/2006/fil06105a.pdf](http://www.fdic.gov/news/news/financial/2006/fil06105a.pdf).

**Joint Guidance Issued on Commercial Real Estate Lending (PR-114-2006, December 6, 2006;**

**FIL-104-2006, December 12, 2006;  
Federal Register, Vol. 71, No. 238, p.  
74580, December 12, 2006)**

The federal financial institution regulatory agencies jointly issued *Guidance*

*on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*. The guidance reminds institutions that strong risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate (CRE) lending program, particularly when an institution has a concentration in CRE loans. See [www.fdic.gov/news/news/financial/2006/fil06104.html](http://www.fdic.gov/news/news/financial/2006/fil06104.html).

**Final Rules on Deposit Insurance Assessments and the Designated Reserve Ratio (PR-101-2006, November 2, 2006; FIL-102-2006, and FIL-103-2006, November 30, 2006;**

creates a new system for risk-based assessments and sets assessment rates beginning January 1, 2007. The other rule sets the designated reserve

took effect January 1, 2007. See [www.fdic.gov/news/news/financial/2006/fil06102.html](http://www.fdic.gov/news/news/financial/2006/fil06102.html) and

**Federal Register, Vol. 71, No. 230, pp. 69270 and 69282, November 30, 2006)**

The FDIC issued final rules to amend Part 327 of the FDIC rules and regulations. One rule

ratio at 1.25 percent. The amendments were made to implement the Federal Deposit Insurance Reform Act of 2005 and were intended to make the deposit insurance assessment system react more quickly and more accurately to changes in institutions' risk profiles and to ameliorate several causes for complaint by insured depository institutions. The final rule

[www.fdic.gov/news/news/financial/2006/fil06103.html](http://www.fdic.gov/news/news/financial/2006/fil06103.html).

**Guidelines for an Environmental Risk Program Issued (FIL-98-2006, November 13, 2006)**

The FDIC issued updated *Guidelines for an Environmental Risk Program* to reflect changes to the Comprehensive Environmental Response, Compensa-

[cial/2006/fil06098a.pdf](http://www.fdic.gov/news/news/financial/2006/fil06098a.pdf).

**Final Rule Issued on Late Deposit Insurance Assessment Penalties (FIL-97-2006, November 9, 2006; Federal Register, Vol. 71, No. 217,**

tion, and Liability Act. Environmental contamination and its associated liability can have a significant effect on the value of real estate collateral. It is also possible for a lending institution to be held directly liable for the environmental cleanup of collateral acquired by the institution. Institutions should have in place appropriate safeguards and controls to limit exposure to this potential environmental liability. See [www.fdic.gov/news/news/financial/2006/fil06098a.pdf](http://www.fdic.gov/news/news/financial/2006/fil06098a.pdf).