



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-18-2010
April 30, 2010

CORRESPONDENT CONCENTRATION RISKS

Interagency Guidance

Summary: The federal financial regulatory agencies (agencies) are issuing the attached guidance on *Correspondent Concentration Risks (CCR Guidance)* to outline the agencies' expectations for identifying, monitoring and managing correspondent concentration risks between financial institutions. The CCR Guidance also addresses the agencies' expectations relative to performing appropriate due diligence on all credit exposures to and funding transactions with other financial institutions.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Chief Lending Officer
Chief Financial Officer

Related Topics:

Advisory on Interest Rate Risk Management,
FIL-2-2010

Interagency Policy Statement on Funding and
Liquidity Risk Management

Attachments:

Correspondent Concentration Risks and Illustrations

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Note:

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Highlights:

- A financial institution's relationship with a correspondent may result in credit (asset) and funding (liability) concentrations. On the asset side, a credit concentration represents a significant volume of credit exposure that a financial institution has advanced or committed to a correspondent. On the liability side, a funding concentration exists when an institution depends on one or a few correspondents for a disproportionate share of its total funding.
- While the agencies recognize some concentrations meet certain business needs or purposes, correspondent concentrations represent a lack of diversification, which adds a dimension of risk that management should consider when formulating strategic plans and internal risk limits.
- Institutions should implement procedures for identifying correspondent concentrations, which encompass their aggregate credit and funding concentrations to each correspondent on both a stand-alone basis and on an organization-wide basis.
- Institutions should specify prudent internal parameters relative to what information, ratios or trends will be monitored for each correspondent on an ongoing basis.
- Institutions should develop plans for managing concentration risks when internal limits, ranges or tolerances are met or exceeded, either individually or collectively.
- Institutions that maintain or contemplate entering into any credit or funding transactions with another financial institution should ensure the terms for these transactions are on an arm's-length basis; conform to sound investment, lending and funding practices; and avoid potential conflicts of interest.
- This guidance supplements existing guidance.