FDIC

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

Financial Institution Letter
FIL-48-2012
November 16, 2012

Revised Standards of Creditworthiness for Investment Securities

Summary: The FDIC is issuing this Financial Institution Letter (FIL) to remind FDIC-supervised institutions of recent regulatory changes regarding the permissibility of certain investment activities. On June 4, 2012, the Office of the Comptroller of the Currency (OCC) adopted a final rule (OCC final rule) and related guidance that removes references to credit ratings in OCC regulations pertaining to investment securities (77 FR 35253 and 35259) consistent with section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under part 362 of the FDIC's regulations, insured state banks generally are prohibited from engaging in an investment activity that is not permissible for a national bank under OCC regulations, including the requirements of the OCC final rule.

The acquisition of a corporate debt security by a federal or state savings association is subject to section 28(d) of the Federal Deposit Insurance (FDI) Act and the requirements of a final rule (FDIC final rule) adopted by the FDIC on July 18, 2012 (77 FR 43151), described in FIL-34-2012 (available at http://www.fdic.gov/news/news/financial/2012/fil12034.html). The FDIC's rule regarding corporate debt securities investments by federal and state savings associations is largely consistent with the OCC final rule and related guidance regarding due diligence considerations and creditworthiness standards for investment securities.

Statement of Applicability to Institutions Under $1 Billion in Total Assets: This FIL applies to all FDIC-supervised institutions, including those with less than $1 billion in assets.

Distribution:
FDIC-Supervised Institutions

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Investment Officer
Chief Risk Officer

Attachments:
OCC Final Rule: Alternatives to the Use of External Credit Ratings

OCC Guidance: Due Diligence Requirements on Determining Whether Securities Are Eligible for Investment

Contact:
Eric Reither, Senior Capital Markets Specialist, Capital Markets Branch, at ereither@fdic.gov or (202) 898-3707

Kyle Hadley, Chief, Examination Support, Capital Markets Branch, at khadley@fdic.gov or (202) 898-6532

Highlights:

- Before acquiring an investment, and periodically thereafter, an insured state bank and an insured state savings association must determine that an issuer has adequate capacity to meet all financial commitments under the security for the projected life of the security.
- An issuer has adequate capacity to meet a financial commitment if the issuer presents a low risk of default and is likely to make full and timely repayment of principal and interest.
- For purposes of this creditworthiness assessment, due diligence may include consideration of internal analyses, third-party research and analytics including external credit ratings, internal risk ratings, default statistics of external credit rating agencies, and other sources of information appropriate for the particular security.
- The range and type of specific factors an institution should consider will vary depending on the particular type and nature of the security.
- While the FDIC does not expect the OCC final rule or the FDIC final rule to materially change the scope of permissible investment securities, FDIC-supervised institutions are required to comply with the new rules.