



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

Financial Institution Letter
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***SUPERVISORY INSIGHTS* JOURNAL**

Summer 2008 Issue Now Available

Summary: The Summer 2008 issue of the FDIC's *Supervisory Insights* journal features articles on topics of critical interest to bankers, examiners and supervisors: the development of recommendations for improving transparency of certain securitization products, managing the effects of unprecedented growth in hybrid adjustable-rate mortgage (ARM) products, an overview of the appropriate use of interest reserves, and the communication of internal control deficiencies as part of the audit process. The publication is available at <http://www.fdic.gov/regulations/examinations/supervisory/insights/index.html>.

Distribution:

FDIC-Supervised Institutions

Suggested Routing:

Chief Executive Officer
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Related Topics:

Securitization
Transparency
Hybrid adjustable-rate mortgages
Interest reserves
Internal control

Attachment:

None

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Note:

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Highlights:

- "Enhancing Transparency in the Structured Finance Market" identifies important transparency concerns in this market and highlights reforms the author believes would improve the transparency of certain securitization products. The article also highlights existing supervisory guidance regarding banks' investments in rated securities.
- "Hybrid ARMs: Addressing the Risks, Managing the Fallout" discusses how lax underwriting and potentially deceptive marketing claims have heightened risks associated with growth in hybrid ARM products. It also discusses supervisory guidance on key principles to protect consumers and manage the risks of these nontraditional loan products.
- "A Primer on the Use of Interest Reserves" identifies risks associated with this underwriting practice, reviews regulatory guidance, and highlights the importance of evaluating the appropriateness of interest reserves when an "Acquisition, Development and Construction" project falters or becomes troubled.
- "External Auditors' Reports: Communication of Internal Control Deficiencies" provides examples of internal control deficiencies and explains how these deficiencies should be evaluated and communicated as part of the external auditor reports. The article also highlights examination considerations and looks at how professional auditing standards may change.