Letter from the Director

Since the publication of the June 2007 issue of *Supervisory Insights*, it has become increasingly clear that banks are entering a more challenging phase of the credit cycle. Risks that may have seemed hypothetical last year have become more concrete. In this more challenging environment, bank supervisors play an important role in ensuring that banks are a source of capital strength and liquidity for the financial system and a trusted source of financial services for consumers.

The articles in this issue of *Supervisory Insights* cover a range of topics of current interest in the bank regulatory arena. As always, the intent is to provide concrete information, derived from firsthand experience, that will be useful to bankers, bank examiners, and practitioners in related disciplines.

Liquidity has taken center stage in the last few months as investors have tried to limit their exposures to subprime mortgages, certain leveraged loans, and other illiquid or complex assets. ***"Liquidity Analysis: Decades of Change"*** describes how banks' and examiners' view of liquidity management has evolved in response to changes in the financial landscape. The article outlines the funding trends that have elevated some banks' liquidity risk profiles and highlights the importance of a forward-looking approach to liquidity planning.

Bank supervisors continue to be attentive to the risk profiles of institutions with significant concentrations in commercial real estate, as evidenced by the publication of interagency guidance on this topic in December 2006. ***"Managing Commercial Real Estate Concentrations"*** provides additional context on some of the key risk management issues and practices that the authors have observed at banks both large and small.

Preventing bank fraud remains a high priority for both law enforcement and supervisory agencies. One of the primary means of monitoring potentially illicit activities is through Suspicious Activity Reports, or SARs. The usefulness of the information in the SAR is largely dependent upon the quality and timeliness of the data itself. ***"Connecting the Dots.... The Importance of Timely and Effective Suspicious Activity Reports"*** describes the importance of SARs and explains how banks can make their SARs more effective.

Data collected under the Home Mortgage Disclosure Act (HMDA) continue to reveal that certain minorities are more likely to receive high-cost mortgages than other racial or ethnic groups. As we begin to analyze the third year of HMDA pricing data, ***"HMDA Data: Identifying and Analyzing Outliers"*** shares insights on our analysis process and lessons learned from our analysis of the 2004 and 2005 pricing data.

The banking agencies issued guidance in 2005 aimed at the increasing instances of identify theft and online banking fraud. ***"Authentication in Internet Banking: A Lesson in Risk Management"*** discusses some of the risks inherent in Internet banking, the 2005 guidance intended to address these risks, and strategies that financial institutions and technology service providers have implemented to strengthen authentication standards for higher-risk online banking activities.

Our feature ***"From the Examiner's Desk"*** uses experience from FDIC-supervised institutions in our Dallas Region to provide insights related to the risks of leverage strategies and associated expectations for managing those risks. Our other regular feature, ***"Accounting News,"*** will return in our Summer 2008 issue.

We encourage readers to continue to provide comments on articles, to ask follow-up questions, and to suggest topics for future issues. All comments, questions, and suggestions should be sent to **SupervisoryJournal@fdic.gov.**

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