Letter from the Director

Since the release of the last issue of ***Supervisory Insights***, turmoil in the financial markets and the downturn in the U.S. housing market have continued to significantly challenge the banking industry. The extraordinary events of this past fall, including a series of bank failures and unassisted mergers of large institutions, evidence the pivotal role the FDIC continues to play in maintaining the availability of banking services during a time of tightening liquidity.

On October 14, 2008, in an unprecedented move to address systemic risks arising from a lack of liquidity in the banking sector, the FDIC announced a Temporary Liquidity Guarantee Program (TLGP) aimed at strengthening confidence in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and providing full coverage of non-interest-bearing deposit transaction accounts.[1] In addition, as part of the enactment of the Emergency Economic Stabilization Act of 2008, the basic deposit insurance limit was temporarily increased to $250,000 as a means of further bolstering the public's confidence in the nation's banking sector.[2]

These recent policy initiatives reflect the importance liquidity issues have assumed in the current banking environment. Accordingly, this issue of ***Supervisory Insights*** features "The Changing Liquidity Landscape." The article describes how problems on the asset side of a bank's balance sheet can cascade to a liquidity run and discusses some steps that institutions can take to anticipate and mitigate liquidity risks.

The current financial crisis presents other lessons for bankers and regulators. One such lesson is the importance to bankers, regulators, and customers of fully understanding the risks and pitfalls—both from a safety-and-soundness and consumer protection perspective—of the products banks are marketing to consumers. With the baby boom generation approaching retirement, an example of a consumer financial product that is likely to grow in importance is the reverse mortgage. "Reverse Mortgages: What Consumers and Lenders Should Know" describes the evolution of this product and its increasing attractiveness to borrowers and financial institutions as more individuals reach retirement age. This article identifies risks for consumers and lenders, offers suggestions for mitigating those risks, and discusses key regulatory and supervisory concerns.

At times, bank supervisors are called upon to decide whether a particular banking practice should be considered an unfair or deceptive practice for purposes of the Federal Trade Commission (FTC) Act. "Unfair and Deceptive Acts and Practices: Recent FDIC Experience" describes the factors that supervisors analyze to reach this determination, using examples from a series of recent FDIC examination-consultations. This article shares the methodology used by FDIC staff as they perform the sometimes difficult compliance analyses required under Section 5 of the FTC Act and provides lessons for avoiding potential violations.

This issue's "Accounting News" explains how banks must adopt a new approach to the evaluation of and accounting for mergers and acquisitions under a revised standard issued by the Financial Accounting Standards Board. This article describes the key changes that will affect business combinations occurring in fiscal years beginning on or after December 15, 2008.

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[1] Federal Deposit Insurance Corporation, Press Release, PR 100-2008, October 14, 2008, at www.fdic.gov/news/news/press/2008/pr08100.html.

[2] Federal Deposit Insurance Corporation, Press Release, PR 93-2008, October 7, 2008 at www.fdic.gov/news/news/press/2008/pr08093.html.

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