Letter from the Director

As this issue of ***Supervisory Insights*** goes to press, nearly a year has passed since the tumultuous fourth quarter of 2008. In many ways, the crisis is still with us as the federal banking agencies continue to deal with an increasing caseload of problem and failing banks.

One legacy of the financial crisis is the variety of special federal liquidity programs to support the financial services sector and the availability of credit that remain in effect. Among the most important manifestations of the government's commitment to support market liquidity is the Federal Reserve's target rate for federal funds. That target rate declined by about 400 basis points during 2008, and it has remained between 0 and 25 basis points for an extended period.

Historically low short-term interest rates create an incentive for some banks to play the yield curve by funding longer-term assets with shorter-term liabilities. In this issue of ***Supervisory Insights,*** "Nowhere to Go but Up: Managing Interest Rate Risk in a Low-Rate Environment" describes how banks are becoming more liability sensitive and vulnerable to increases in short-term rates. This development is of particular concern due to the adverse impact that greater exposure to interest rate risk can have on banks' earnings and capital—two areas already under pressure from deteriorating asset quality. The article describes the current interest rate environment, identifies the types of interest rate risk, and highlights best practices for measuring, monitoring, and controlling this increasingly prevalent form of risk.

This issue of ***Supervisory Insights*** also focuses on the Community Reinvestment Act (CRA), which requires institutions to help meet the credit needs of their communities. Examiners sometimes find it difficult to assess the responsiveness of a bank's lending program, as CRA examination procedures may emphasize the volume of loans rather than the quality of lending activities. "Not Just Adding Up the Numbers: Achieving CRA Objectives in Challenging Times" discusses the goal of the Act in the context of the current weak economic environment and highlights procedures for appropriately evaluating the quality of large- and small-bank lending programs.

Ensuring the security of information assets and systems continues to challenge financial institutions, particularly in light of increasingly sophisticated cyber attacks. The development of comprehensive and effective risk assessments is critical to each bank's ability to identify potential internal and external threats to information systems. "Customer Information Risk Assessments: Moving Toward Enterprise-wide Assessments of Business Risk" discusses three approaches to risk assessments, identifies potential shortcomings, and describes appropriate regulatory responses.

We hope these articles will be a valuable resource and continuing reference for our readers. As always, we look forward to your feedback as well as your suggestions for topics in future issues. Please e-mail your comments and suggestions to SupervisoryJournal@fdic.gov.

Sandra L. Thompson
Director
Division of Supervision and Consumer Protection