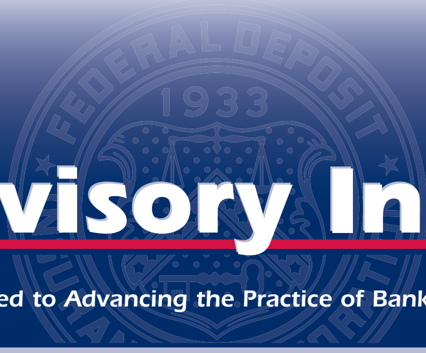

Supervisory Insights

Devoted to Advancing the Practice of Bank Supervision

Vol. 13, Issue 2 Winter 2016

Inside

Credit Risk Trends and Supervisory Expectation Highlights

Regulatory and Supervisory Roundup

Supervisory Insights

Supervisory Insights is published by the Division of Risk Management Supervision of the Federal Deposit Insurance Corporation to promote sound principles and practices for bank supervision.

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Current strong loan growth reflects the continuing economic recovery. Financial institutions that have prudently managed loan growth in the past have been better positioned to withstand periods of stress and continue to serve the credit needs of local communities. This article identifies trends in credit risk and emphasizes to bankers and examiners that now is the time to heed long-standing principles of sound risk management practices. The article examines growth on bank balance sheets and effective risk management practices related to commercial real estate, agriculture, and oil and gas-related lending.

Regular Features

Regulatory and Supervisory Roundup 26

This feature provides an overview of recently released regulations and supervisory guidance.

Notice of Correction

A correction has been made to "'Matters Requiring Board Attention' Underscore Evolving Risks in Banking" which was published in the Summer 2016 issue of *Supervisory Insights*. On page 11 of this issue, the third sentence in the first full paragraph now reads, "Of these banks, the percentage with a three-year growth rate in excess of 50 percent in either portfolio increased from 23 percent at year-end 2013 to 32 percent at year-end 2015; this percentage increased to 36 percent in the first quarter of 2016." The sentence previously read, "Of these banks, the percentage with a three-year growth rate in excess of 50 percent in either portfolio increased from 23 percent at year-end 2013 to 34 percent at year-end 2015; this percentage increased to 39 percent in the first quarter of 2016." This correction has been made to the PDF version of the Summer 2016 issue on www.fdic.gov.

Letter from the Director

As the economic recovery continues, loan volume at the nation's banks is growing. A large majority of insured institutions, nearly 80 percent, grew their loan portfolios during the third quarter of 2016, a figure not far from the peak of nearly 83 percent of institutions that grew their loan portfolios in 2005. Historically, institutions that have effectively and prudently managed loan growth have been better positioned to withstand periods of volatility and stress and, as result, have been able to continue to serve their local economies through economic cycles.

As evidenced by the lessons learned from the recent crisis, loan portfolios warrant close monitoring during a growth cycle. Underwriting standards, credit administration practices, funding sources, and external market factors should be evaluated as part of ongoing oversight of loan portfolios, particularly when portfolios are growing rapidly or are large in relation to capital levels.

This issue's feature article, "Credit Risk Trends and Supervisory Expectation Highlights," provides an overview of industry loan metrics and describes the expectations articulated in supervisory guidance for managing growing loan concentrations. This article focuses on three loan categories — commercial real estate, agriculture, and oil and gas-related lending. These categories were selected because of how critical they are to FDIC-supervised banks and how quickly trends are shifting within these loan types. The article emphasizes the need, in this current robust loan market, to apply effective and sound risk management practices to maintain strong credit quality.

This issue of *Supervisory Insights* also includes an overview of recently released regulatory and supervisory guidance.

I hope you find the article in this issue to be a valuable resource in the area of credit risk management. We encourage our readers to provide feedback and suggest topics for future issues. Please e-mail your comments and suggestions to SupervisoryJournal@fdic.gov.

Doreen R. Eberley
Director
Division of Risk Management Supervision

Credit Risk Trends and Supervisory Expectation Highlights

INTRODUCTION

Loans comprise the majority of most banks' assets, and therefore drive revenues, profitability and capital formation. Further, lending by insured institutions plays a vital role in supporting credit creation and economic activity across the country. Historically, institutions with management teams and boards that have effectively and prudently managed loan growth have been better positioned to withstand periods of stress and continue serving their local economies throughout the economic cycle. Managing the loan portfolio consumes much time and attention from an institution's board of directors and management team, and establishing and overseeing lending policies is a critical responsibility of an institution's board.

Nevertheless, experience has shown that the seeds of future problems are sown in good times. Now is the time to pay attention to long-standing principles of good risk-management practices and to get ahead of and correct loan underwriting and administration problems before they adversely affect the bottom line. As described later in this article, institutions with concentrated portfolios are experiencing more rapid loan growth rates than the rest of the industry. At the same time, FDIC examiners have noted some loan underwriting, administration, and portfolio-management problems at concentrated banks.

This article examines growth on banks' balance sheets, trends in credit risk, and principles of sound risk-management practices. The article focuses on three loan categories: commercial real estate (CRE), agricultural (Ag), and oil and gas-related (O&G) lending. These loan categories have been selected because of their trends, such as growth and volatility in underlying fundamentals, and their importance to the institutions the FDIC supervises. Readers should not construe this discussion as a negative view of any lending category nor as a view that the FDIC is not monitoring trends in and risk management practices relevant to other loan categories.

TRENDS IN CREDIT RISK - OVERVIEW

As of September 30, 2016, year-over-year growth in total loan balances for insured institutions was 6.8 percent. Moreover, a large majority, nearly 80 percent, of insured institutions grew their loan portfolios in the third quarter of 2016, not far off of the peak of nearly 83 percent for the second quarter 2005 (See Chart 1). Rapid loan growth is occurring

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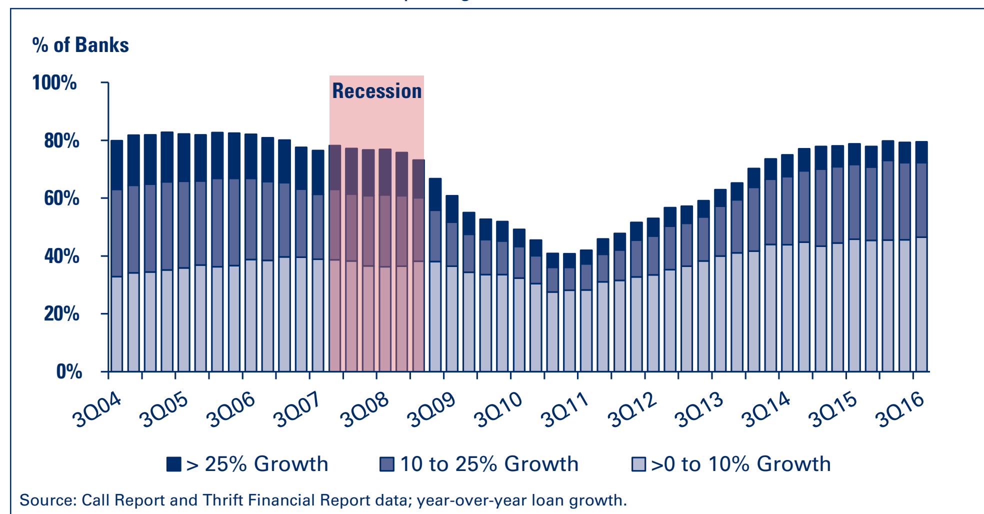
at many banks, although not to the extent that occurred in the lead-up to the 2008 financial crisis; nearly 33 percent of institutions grew their loan portfolios in excess of 10 percent year-over-year as of September 30, 2016, compared to 48 percent as of June 30, 2005 (See Chart 1). The loan growth trend is consistent with the continuing economic recovery and is coming from low levels just after the recession.

Call Report data show that the percentage of banks with potential concentrations in, and high growth of, CRE and Ag loans has increased. From year-end 2013 through the third quarter 2016, roughly one-third of all banks reported total CRE or total Ag loans greater than 300 percent of total capital. Of these banks, the percentage with a three-year growth rate in excess of 50 percent in either portfolio had increased from 23 percent at year-end 2013 to more than 35 percent as of the third quarter 2016. Call Report data do not specifically capture O&G lending, but many banks are located within regions and localities that are heavily dependent on energy-related industries, some of which could be expected to have substantial direct and/or indirect exposures to those industries in their commercial and industrial, CRE, consumer, and/or other loan portfolios.

It is important to understand that the lending concentration percentages and loan growth rates just described are not regulatory limits. Concentrations are not inherently problematic and are a part of doing business for many banks, particularly smaller institutions. However, concentrations add a dimension of risk that management must consider when formulating strategic plans and risk-management policies. Management's ability to diversify the balance sheet may be limited by geographic or economic factors. In other instances, management may choose a specific business model or product line that results in concentrations. When management cannot or does not achieve reasonable diversification, risk-management programs that may otherwise be adequate may require increased oversight; stronger credit- and liquidity-management practices; enhanced management information systems and reporting; more robust loan review and allowance for loan and lease losses (ALLL) policies and practices; and possibly, higher capital levels.

Chart 1: Share of FDIC-insured Banks Reporting Loan Growth



Source: Call Report and Thrift Financial Report data; year-over-year loan growth.

COMMERCIAL REAL ESTATE

CRE lending can be a profitable business line for insured institutions that select and underwrite risks prudently and oversee portfolios diligently, and many institutions maintain concentrations in CRE loans. The FDIC recognizes that many institutions manage concentrations in CRE loans well. History, however, has also demonstrated that CRE, particularly the acquisition, development and construction (ADC) subset, is susceptible to cyclical, competitive, and other, sometimes unanticipated, factors that can quickly knock supply and demand out of balance, ultimately resulting in significant losses for many institutions. In fact, the FDIC *Community Bank Study* showed that, over a 26-year time period, community institutions specializing in CRE lending were the most likely among other types of lending specialists to fail, with a failure rate of 2.25 times that of the average community bank.[1]

Other studies have shown that for institutions with concentrations, the ability to withstand such market changes will depend heavily on the adequacy of their risk-management practices and capital levels.

To illustrate, in the *Comprehensive Study on the Impact of the Failure of Insured Depository Institutions,*[2] the FDIC Inspector General noted that the most common contributing causes of bank failures during the 2008 financial crisis were *"the institutions' management strategy of aggressive growth that concentrated assets in CRE and ADC loans, often coupled with inadequate risk management practices for loan underwriting, credit administration, and credit quality review."* According to this study, a number of these banks concentrated in CRE and ADC also relied on *"volatile funding sources"* to support their growth.

Moreover, the FDIC Inspector General's *Acquisition, Development, and Construction Loan Concentration Study*[3] found that *"some institutions with ADC concentrations were able to weather the recent financial crisis without experiencing a corresponding decline in their overall financial condition. The factors that contributed to their survival validate the point that regulators have emphasized and reiterated for years – a well-informed and active Board, strong management, sound credit administration and underwriting practices, and adequate capital are important in managing ADC concentrations in a safe and sound manner. In addition, the banks in the study did not rely on brokered deposits to fund growth…"* This study also indicated that *"management's responsiveness to supervisory concerns was a key differentiating factor between banks that failed and the turn-around banks we reviewed."*

[1] FDIC, *Community Bank Study*, December 2012, pages 5-13; https://www.fdic.gov/regulations/resources/cbi/report/cbi-full.pdf. The Study covered the period from 1984 to 2011.

[2] FDIC, Office of the Inspector General, *Comprehensive Study on the Impact of the Failure of Insured Depository Institutions*, EVAL-13-002, January 2013, pages 49-50; https://www.fdicig.gov/reports13/13-002EV.pdf.

[3] FDIC, Office of Inspector General, *Acquisition, Development, and Construction Loan Concentration Study,* EVAL-13-001, October 2012; https://www.fdicig.gov/reports13/13-001EV.pdf.

Credit Risk Trends

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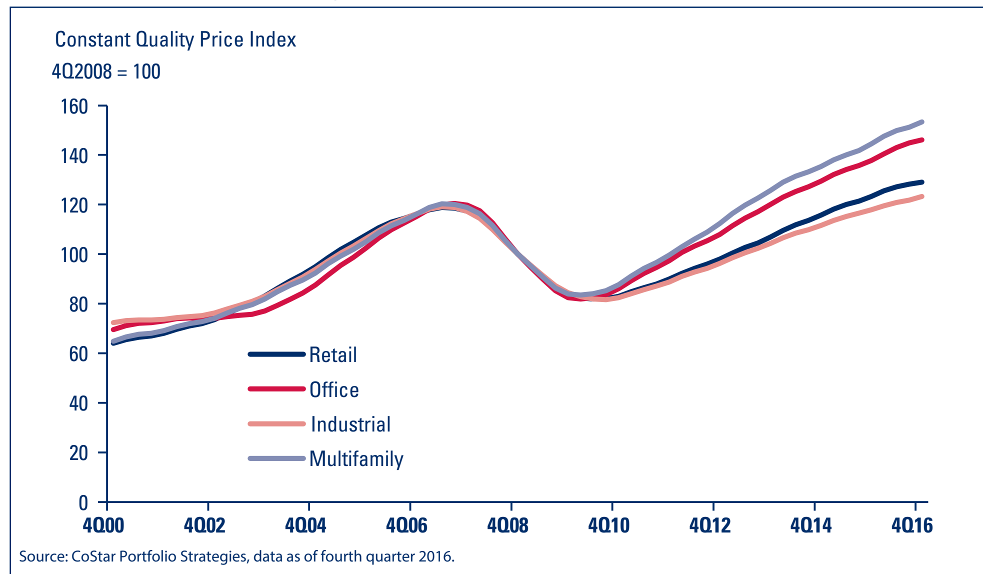
CRE Market Conditions

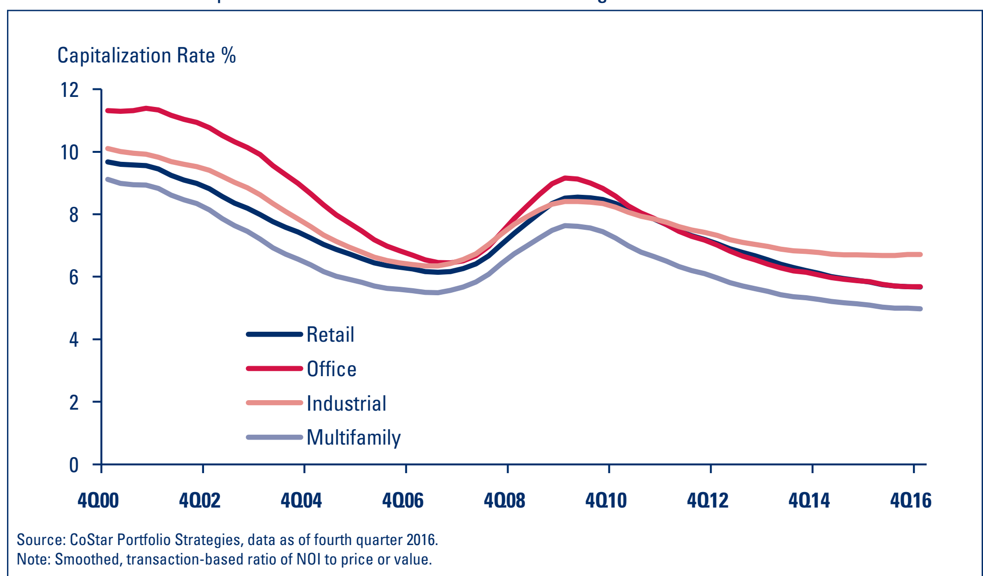
CRE market data show that as the economic recovery progresses, demand for CRE has continued to be strong, resulting in CRE property values at historic peaks (See Chart 2). Given the strong demand and low interest rate environment, most capitalization rates for CRE are below pre-crisis troughs (See Chart 3). Despite very strong growth in the CRE loan market, which includes refinancings of existing properties as well as new properties coming on line, CRE vacancy rates have been generally improving, although vacancy rates in the multifamily segment have recently experienced a slight increase (See Chart 4 and inset box on page 7).

Chart 2: CRE Prices at Historic Highs



Source: CoStar Portfolio Strategies, data as of fourth quarter 2016.

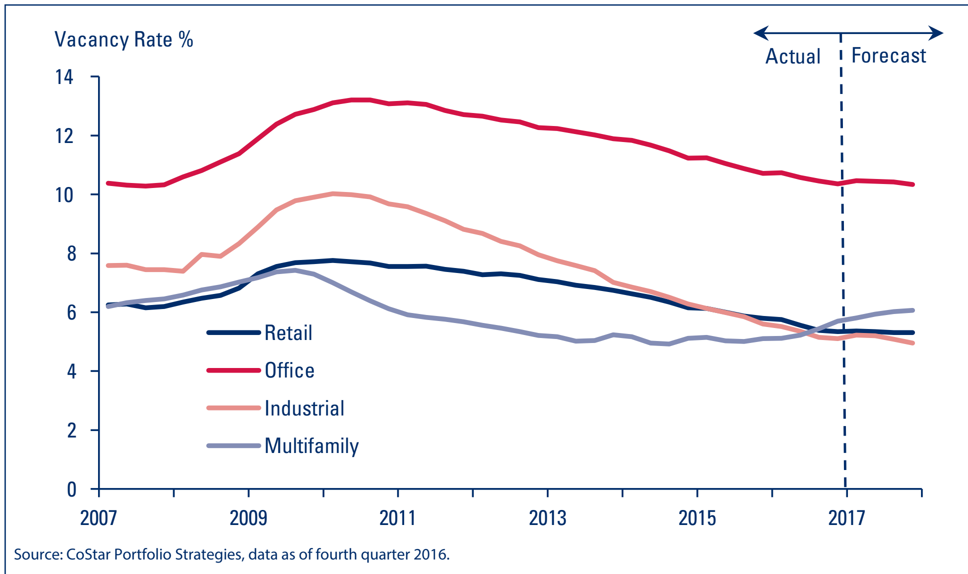
Chart 3: Most CRE Capitalization Rates Below Pre-Crisis Troughs



Source: CoStar Portfolio Strategies, data as of fourth quarter 2016.
Note: Smoothed, transaction-based ratio of NOI to price or value.

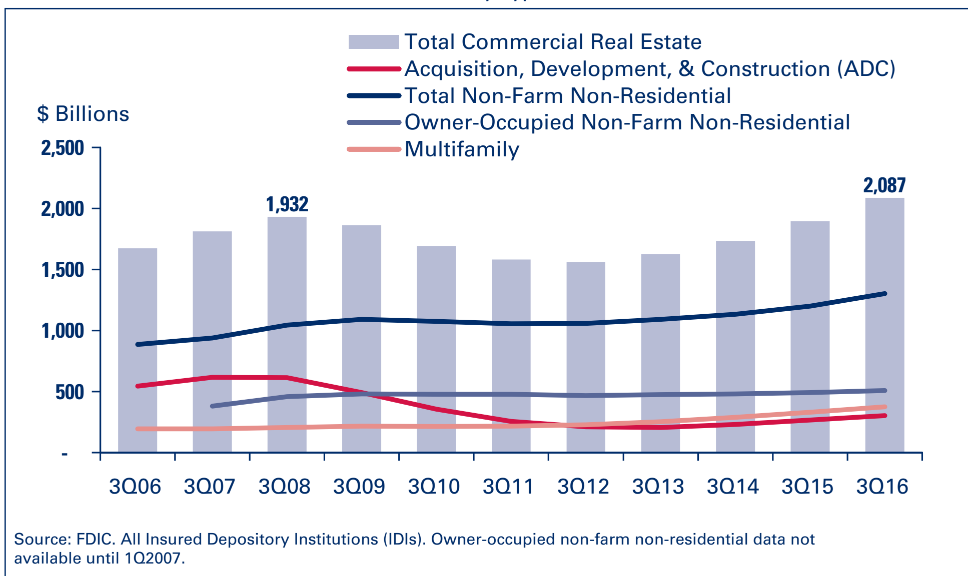
As of September 30, 2016, multifamily loan balances at FDIC-insured institutions had grown nearly 94 percent in the past 10 years and comprised almost 18 percent of all CRE loan balances held by banks versus about 12 percent 10 years ago. Given rapid multifamily unit supply growth in some markets, it is increasingly important to monitor demand for units in those markets versus the inventory of rentable units. As demand slows in certain markets, those markets may not be able to absorb the excess supply as quickly as projected, resulting in higher vacancy rates and lower-than-projected cash flows.

Chart 4: Vacancy Rates Generally Improving



Source: CoStar Portfolio Strategies, data as of fourth quarter 2016.

Chart 5: Commercial Real Estate Loan Balances by Type



Source: FDIC. All Insured Depository Institutions (IDIs). Owner-occupied non-farm non-residential data not available until 1Q2007.

continued from pg. 7

With the increased demand, banks' CRE balances are growing. As of September 30, 2016, total CRE loans on banks' balance sheets reached $2.0 trillion, surpassing the peak volume of $1.9 trillion experienced in 2008 (See Chart 5). Recent growth in the CRE portfolio has been spread across the various types of CRE tracked by the Call Reports.[4] Non-farm, non-residential balances make up the largest portion of the CRE portfolio at $1.3 trillion, up 8.4 percent from the prior year.

Financial Trends for Banks with CRE Concentrations

To identify insitutions with potential CRE loan concentration risk, this article uses the supervisory criteria contained in the 2006 interagency guidance entitled *Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices* (2006 Guidance).[5] The 2006 Guidance states:

"An institution that has experienced rapid growth in CRE lending, has notable exposure to a specific type of CRE, or is approaching or exceeds the following supervisory criteria may be identified for further supervisory analysis of the level and nature of its CRE concentration risk:

(1) *Total reported loans for construction, land development, and other land represent 100 percent or more of the institution's total capital; or*

(2) *Total commercial real estate loans as defined in this Guidance represent 300 percent or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate portfolio has increased by 50 percent or more during the prior 36 months."* [6]

At the end of the third quarter 2016, there were 521 FDIC-insured institutions that met one or both of the two criteria set forth in the 2006 Guidance (See Chart 6); 330 banks met the first criterion (ADC) and 266 met the second criterion (CRE growth). There were 75 institutions that met both criteria. Hereafter, the 521 institutions are collectively referred to as "institutions exceeding the supervisory criteria." While the total number of institutions exceeding the supervisory criteria is still well below the level observed in 2010, it has increased from 474 in the third quarter 2015 and 350 in the third quarter 2013.

Financial metrics for institutions exceeding the supervisory criteria are displayed in this article as medians to reflect the "typical" institution in these categories rather than as averages, which can be distorted by outliers. At the median, institutions exceeding the supervisory criteria currently reflect higher pre-tax return on assets (ROA) than other institutions, but are operating with a generally higher-risk profile by a number of measures. Specifically,

[4] Note that Call Report segmentation of the loan portfolio (ADC, Total Non-Farm Non-Residential, Owner-Occupied Non-Farm Non-Residential, and Multifamily) may be different than other data sources.

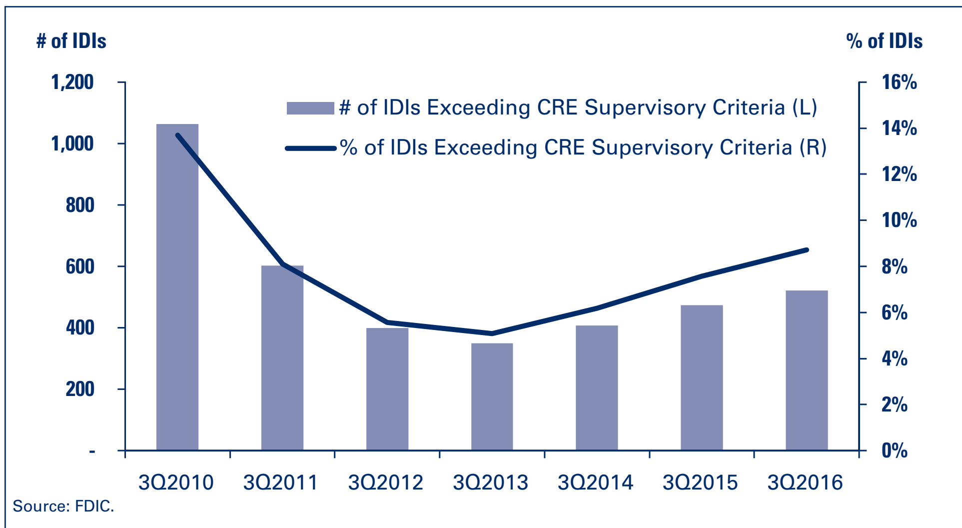
[5] Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, FDIC, "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," December 12, 2006; https://www.fdic.gov/news/news/press/2006/pr06114a.html.

[6] For purposes of the 2006 Guidance, "commercial real estate loans" is defined as all categories of CRE, including ADC, but excluding loans secured by owner-occupied properties. The breakout of owner-occupied CRE on the Call Report was not implemented until 2007; therefore, data for the CRE growth prong of the 2006 Guidance is not available until 2010 (as reflected in the applicable charts).

these institutions have lower leverage capital ratios, lower total risk-based capital ratios, and higher wholesale funding[7] to assets ratios (Table 1).

Reliance on wholesale funding was a contributing factor for failures in the last crisis.

Chart 6: Institutions Exceeding the Supervisory Criteria



Source: FDIC.

Table 1

Comparison of Median Financial Ratios (as of September 30, 2016)

	ADC >= 100% Total Capital	2006 Guidance CRE >= 300% Total Capital	All Other Institutions
Tier 1 Leverage Ratio	9.82%	9.64%	10.58%
Total Capital Ratio	13.23%	12.76%	16.68%
Pre-Tax Return on Assets	1.37%	1.34%	1.15%
Wholesale Funding to Asset Ratio	14.56%	20.08%	13.50%
Total Past Due Loan Ratio	0.83%	0.60%	1.37%
ALLL to Gross Loan Ratio	1.25%	1.13%	1.25%
One Year Total Loan Growth Ratio	10.92%	17.35%	5.76%

[7] For the purposes of this article, wholesale funding is defined primarily as the sum of the following Call Report categories: federal funds purchased and securities sold under agreements to repurchase, other borrowed money, brokered deposits, deposits gathered through listing services, and uninsured deposits of state and political subdivisions. This is for analysis purposes only and does not constitute an official regulatory definition.

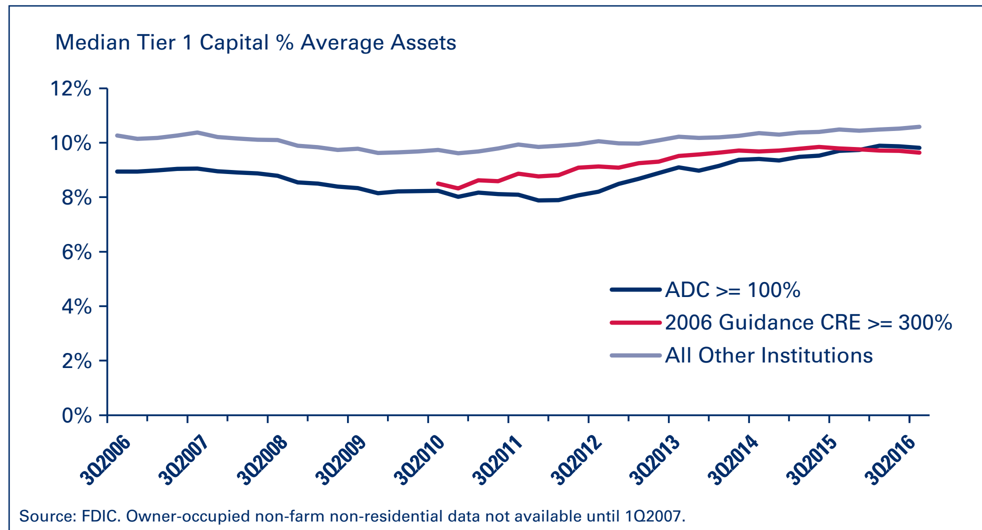
Credit Risk Trends

continued from pg. 9

As also shown in Table 1, institutions exceeding the supervisory criteria, as a group, are exhibiting faster loan growth than other institutions. Growth in new loans can mask building risk because it typically drives down a bank's ratios of past-due loans to total loans and charge-offs to total loans, as well as (under current accounting standards) the ratio of its ALLL to loans. This may be part of the reason that institutions exceeding the supervisory criteria currently have lower ratios of past-due loans and of the ALLL, relative to the size of their loan portfolios, than do other institutions. However, as the trends in Charts 9 and 10 show, loan delinquencies and charge-offs for institutions exceeding the supervisory criteria were much higher than for other institutions as the crisis unfolded.

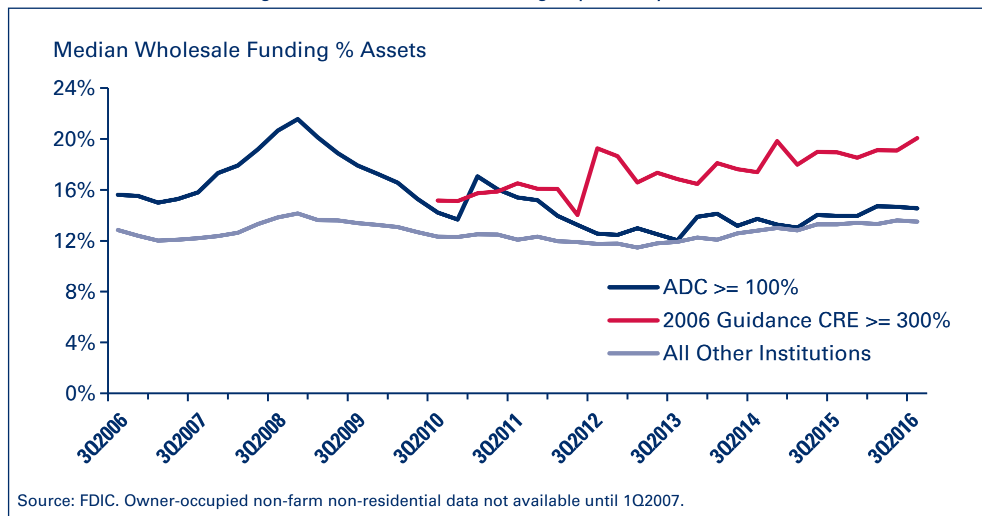
Charts 7-11 depict time trends since the third quarter 2006 for selected financial indicators for institutions exceeding the supervisory criteria. As shown in Chart 7, since the publication of the 2006 guidance, median leverage ratios of institutions exceeding the supervisory criteria have been

Chart 7: Leverage Capital Trend: Institutions Exceeding Supervisory Criteria vs. All Other Institutions



Source: FDIC. Owner-occupied non-farm non-residential data not available until 1Q2007.

Chart 8: Wholesale Funding Trend: Institutions Exceeding Supervisory Criteria vs. All Other Institutions



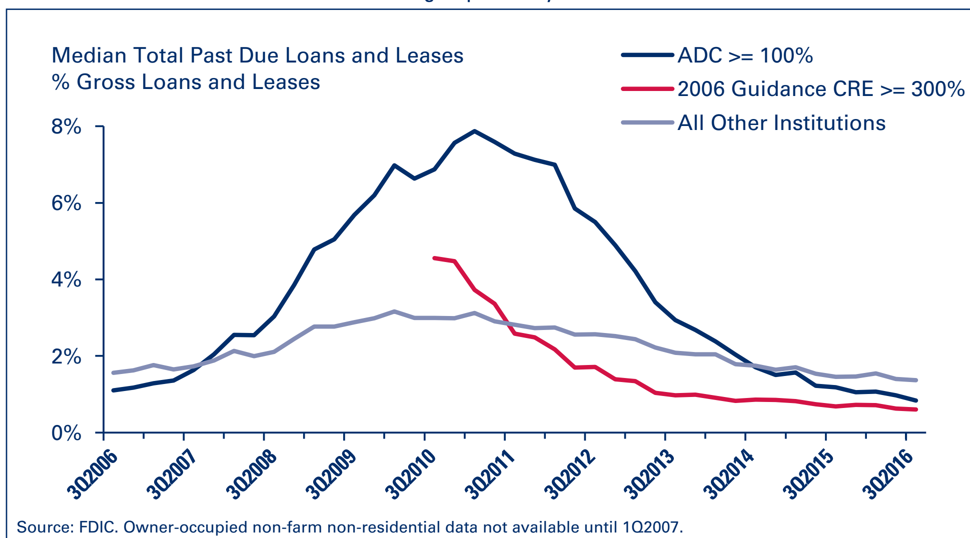
Source: FDIC. Owner-occupied non-farm non-residential data not available until 1Q2007.

roughly just over half of a percentage point to roughly two percentage points lower than the median leverage ratios of other banks.

At the same time, institutions exceeding the supervisory criteria have made greater use of wholesale funding. The use of wholesale funding by institutions with ADC concentrations has trended downward since the crisis, but remains higher than that of other institutions. The use of wholesale funding by institutions exceeding the CRE growth prong of the supervisory criteria remains substantially higher than for other institutions (See Chart 8). As described earlier, reliance on wholesale funding has been a contributing risk factor in bank failures.

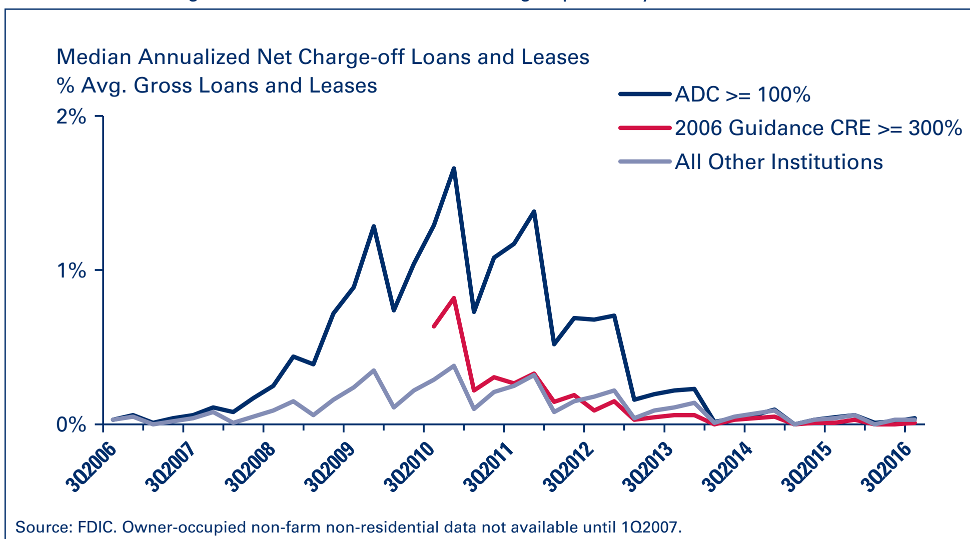
In terms of asset quality, institutions exceeding the supervisory criteria fared worse, and for those meeting the ADC prong, much worse, than other institutions as the crisis unfolded (See Charts 9 and 10).

Chart 9: PDNA Trend: Institutions Exceeding Supervisory Criteria vs. All Other Institutions



Source: FDIC. Owner-occupied non-farm non-residential data not available until 1Q2007.

Chart 10: Net Charge-Off Trend: Institutions Exceeding Supervisory Criteria vs. All Other Institutions



Source: FDIC. Owner-occupied non-farm non-residential data not available until 1Q2007.

continued from pg. 11

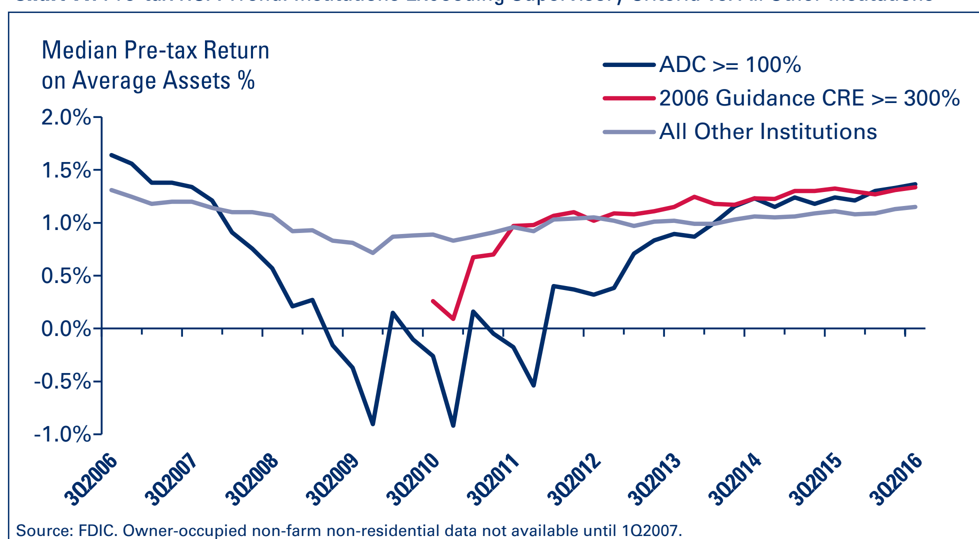
Similarly, for institutions exceeding the ADC prong of the supervisory criteria, median pre-tax ROA first dropped steeply and then was in or near negative territory for about three years in the aftermath of the crisis, while earnings performance for institutions meeting the CRE growth prong was markedly worse than for other institutions in the beginning of this period (late 2000s and early 2010s) (See Chart 11). The bottom line is that, at the median, the reward did not match the risk for CRE concentrated banks, as profits evaporated quickly and deeply during the crisis.

Risk-Management Trends for Banks with CRE Concentrations

The Call Report does not capture data related to risk-management policies, procedures and practices around lending activities. However, feedback from the FDIC's examinations of CRE lenders indicates that weaknesses have been observed in loan underwriting, administration, and oversight practices in some instances. These have included, but are not limited to, the following, which were also evident during the crisis:

- The absence of, or unsupported or excessive, board-approved limits for CRE portfolios or segments thereof;
- Inadequate reporting of concentrations to the institution's board or relevant committee and lack of documented discussion regarding concentrations in board or relevant committee meetings;
- Weaknesses in underwriting practices, including the following:
  - Numerous exceptions to the institution's loan policy;
  - Inadequate tracking of loan policy exceptions;
  - Unsupported cash flow projections;
  - Lack of global cash flow analysis of guarantors; and
  - Excessive or inappropriate use of cash-out financing and interest only payment terms;

Chart 11: Pre-tax ROA Trend: Institutions Exceeding Supervisory Criteria vs. All Other Institutions



Source: FDIC. Owner-occupied non-farm non-residential data not available until 1Q2007.

- Use of inadequate or poorly supported risk factors within stress testing or sensitivity analysis of the CRE portfolio;
- Insufficient internal loan review coverage of CRE activities or improper risk ratings;
- Appraisal review programs lacking adequate independence or expertise of reviewers;
- Inadequate stratification of CRE portfolios within the ALLL analysis;
- Ineffective construction loan oversight, including lack of timely inspections or adequate disbursement controls; and
- Strategic CRE planning deficiencies, including outdated or inadequate market analysis and lack of contingency plans that would identify options if CRE risks were to become problematic for the institution.

Managing CRE Concentration Risk

As discussed earlier, studies have shown that institutions specializing in CRE lending have failed more than other types of lending specialists and that, in the 2008 crisis, poorly managed CRE concentrations, particularly in conjunction with reliance on wholesale funding sources, were highly correlated with failure. This history is an important reminder that strong risk management, which is crucial for any institution, is even more imperative for institutions that have heightened concentrations of CRE relative to capital. In that vein, the 2006 Guidance does not establish specific CRE lending limits; rather, it promotes sound risk-management practices and appropriate levels of capital that will enable institutions to continue to pursue CRE lending in a safe and sound manner.

Nevertheless, institutions exceeding the supervisory criteria continue to have lower levels of capital and higher levels of reliance on wholesale funding than other institutions. Moreover, while many banks continue to manage CRE concentrations appropriately, risk-management exceptions have been observed at some examinations. Finally, while pre-tax ROA is currently higher than at other banks, experience from the crisis shows how quickly and deeply that trend can reverse, suggesting that the tradeoffs between risk and reward have not always been properly calibrated.

Given the highly cyclical risk profile of CRE lending, management at institutions with CRE concentrations, or those seeking to enter or expand activities in the CRE arena, need to make sure that risk-management practices and oversight of the CRE portfolio is especially robust.

General supervisory expectations from existing guidance for banks' risk-management practices are discussed in the final section of this article.

AGRICULTURE

Approximately one of every four insured financial institutions, or about 1,461 banks as of September 30, 2016, is characterized as an "Ag bank," as the FDIC has historically defined this term.[8] Institutions focused on Ag lending may be susceptible to volatilities in commodity prices, weather, and land values. Accordingly, banks engaged in Ag lending must maintain sound

[8] There is no definitive definition or threshold for institutions concentrated in agricultural loans. For research purposes, the FDIC has historically defined Ag banks as any insured institution whose combined agricultural production loans and loans secured by farmland equal or exceed 25 percent of total loans. This is not an official regulatory definition nor is it a regulatory limitation, and it is recognized that there may be other definitions of Ag banks.

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underwriting standards, strong credit administration practices, and effective risk-management strategies.

Ag Market Conditions

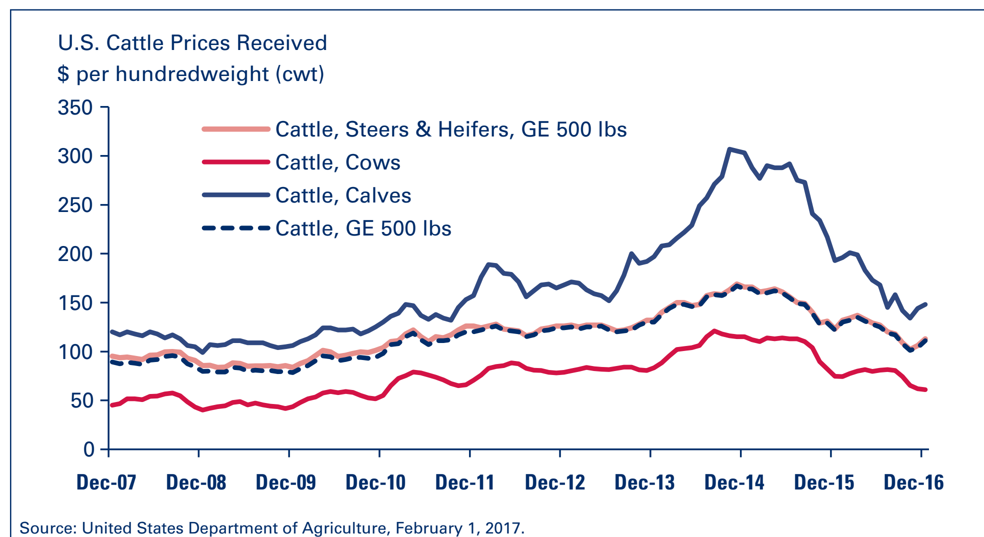
Net real farm income in the United States was only 65 percent of its 2013 high in 2015,[9] and the United States Department of Agriculture (USDA) projects net farm income will continue to slide.[10] At the end of November 2016, the USDA projected net farm income to drop 17.2 percent to $66.9 billion for 2016, down from $80.9 billion in 2015. Commodity prices have been under pressure for several years, and the trend persists for most field crops and livestock.

According to the USDA, its 2016 forecast for crop cash receipts, $186.5 billion, represents a decline of over 24 percent in inflation-adjusted terms from the all time high in 2012. Expected further weakening of corn prices in 2016 is forecast to more than offset production gains. Meanwhile, for wheat, receipts have declined since peaking in 2012, as strong harvests are counterweighed by price declines. Fundamentals for soybeans, such as strong export commitments, are cited as a positive; however, their durability remains unknown.

Livestock prices are also exhibiting pressure. For example, Chart 12 shows the overall trend in cattle prices in recent years. The USDA's November 2016 forecast for overall farm cash receipts to fall by $23.4 billion in 2016 is driven by a projected drop in animal/animal product receipts of a like amount. The USDA forecasts lower receipts for nearly all major animal specialties, including a 14.8 percent drop in cattle/calf receipts.

Additionally, an ongoing decline in farmland values and cash rental rates has accelerated slightly due to

Chart 12: Price Received for Cattle – United States



Source: United States Department of Agriculture, February 1, 2017.

[9] USDA/ERS Farm Income and Wealth Statistics as of November 30, 2016.

[10] USDA/ERS Farm Income and Wealth Statistics as of November 30, 2016 (next release in February 2017).

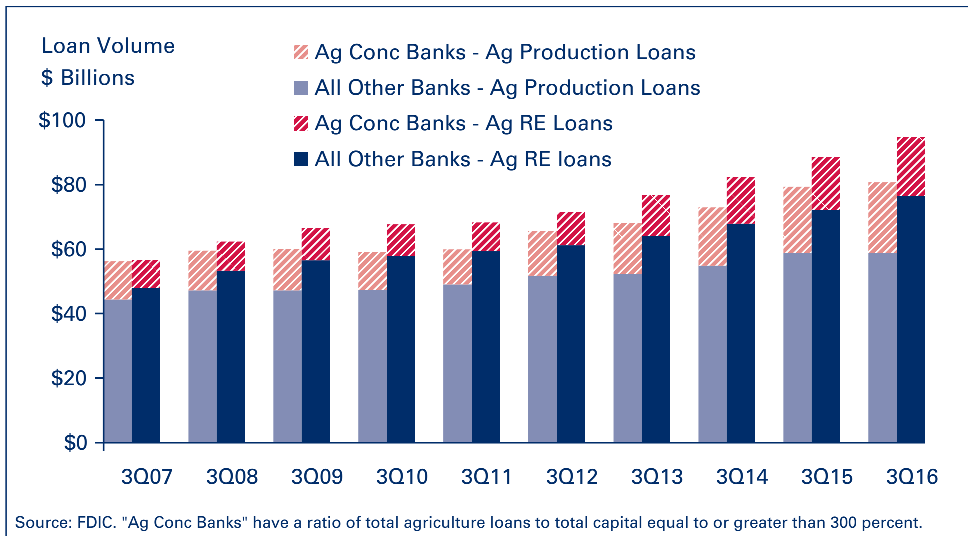
prolonged pressure from falling farm income.[11] The USDA's November 2016 forecast sees net rent expense decreasing by 1.6 percent in 2016; however, it will continue a trend of the majority being paid to nonoperator landlords versus landlords who are farm operators.

Financial Trends for Institutions with Ag Concentrations

Ag loans continue to be an important component of many institutions' loan portfolios. As shown in Chart 13, the banking industry's Ag production and Ag real estate loan volumes are increasing. The rise in Ag lending volumes is due, at least in part, to a number of farmers who, after self-financing their operations when they were flush with cash from high prices in the earlier part of the decade, are now having to return to bank-financing as a result of lower farm income and diminishing working capital positions.

The discussion of financial trends in this section compares selected median ratios for institutions with Ag concentrations, Ag banks, and non-Ag banks. Institutions with Ag concentrations are defined for this article as institutions with Ag loans equal to or exceeding 300 percent of total capital and total 500 institutions as of September 30, 2016.[12] As reflected in Chart 13, most Ag loans by dollar volume are held by institutions that do not have Ag concentrations.

Chart 13: Ag Loan Volume Trend by Loan Type



Source: FDIC. "Ag Conc Banks" have a ratio of total agriculture loans to total capital equal to or greater than 300 percent.

[11] Kauffman, Nathan and Clark, Matt "Financial Stress in Farm Sector Shows Slow but Steady Increase," Federal Reserve Bank of Kansas City Ag Credit Survey, November 10, 2016; https://www.kansascityfed.org/research/indicatorsdata/agcreditsurvey/articles/2016/11-10-2016/financial%20stress%20in%20farm%20sector%20shows%20slow%20but%20steady%20increase.

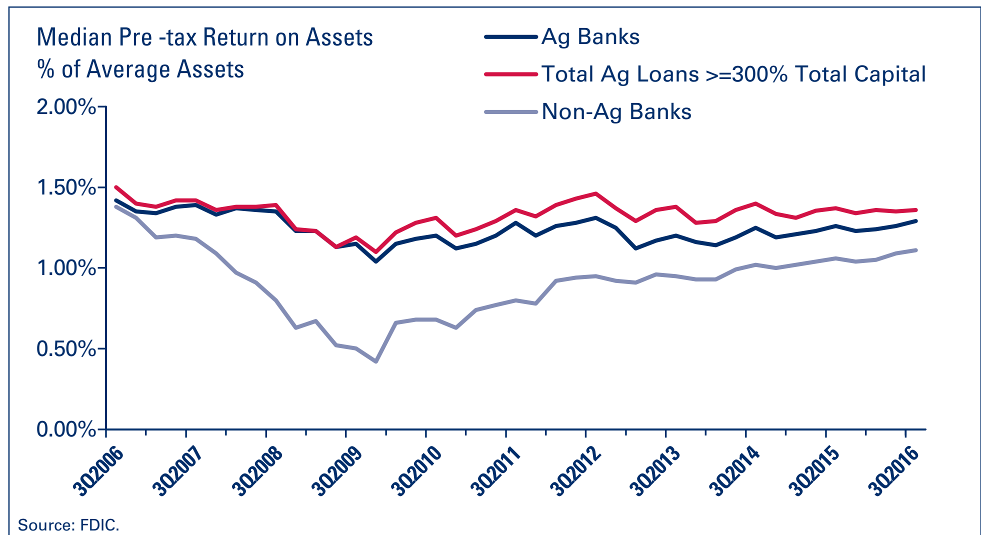
[12] This article segregates banks with Ag concentrations equal to or exceeding 300 percent to isolate and analyze a smaller set of banks than the historical research definition of Ag Bank. This categorization is not an official regulatory definition nor is it a regulatory limitation.

Credit Risk Trends

continued from pg. 15

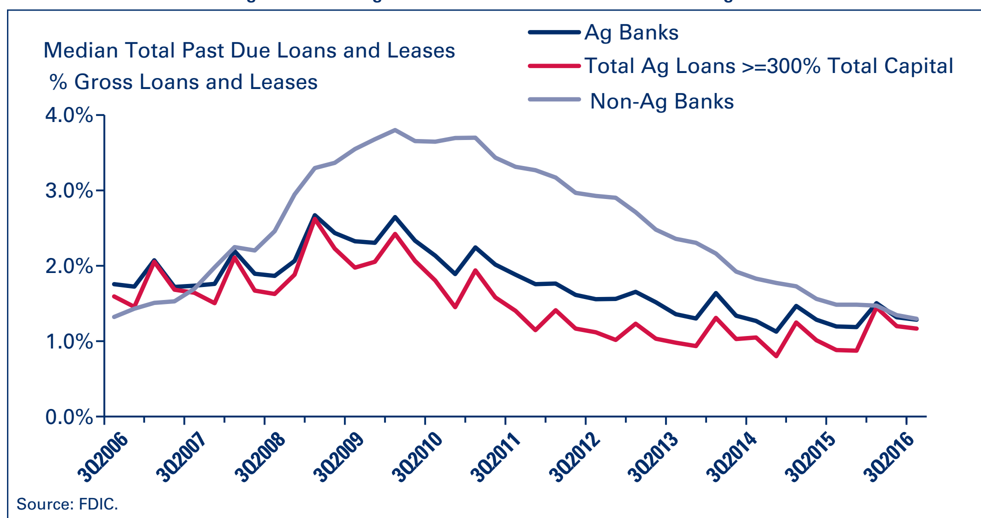
Ag banks, including those with Ag concentrations relative to capital, generally weathered the 2008 financial crisis better than other types of lending institutions, and their financial performance as a whole remained good heading into the fourth quarter of 2016. As indicated in Chart 14, neither Ag banks in general, nor banks with Ag concentrations, experienced the pronounced decline in pre-tax ROA that other institutions experienced during and after the crisis. Chart 15, reflects that loan performance of Ag banks in general, and of institutions with Ag concentrations, was far superior to that of other banks during the crisis.

Chart 14: Pre-tax ROA Trend: Ag Banks vs. Ag Concentrated Institutions vs. Non-Ag Banks



Source: FDIC.

Chart 15: PDNA Trend: Ag Banks vs. Ag Concentrated Institutions vs. Non-Ag Banks



Source: FDIC.

Table 2 summarizes select September 30, 2016 median financial metrics for Ag banks, institutions with Ag concentrations, and non-Ag banks. Similar to the indicators for CRE-concentrated institutions described in the last section, institutions with Ag concentrations have higher earnings than other institutions as measured by median pre-tax ROA, but are operating with somewhat lower capital ratios and greater use of wholesale funding than other institutions. Unlike the CRE cohort, loan growth rates are lower than for other institutions. Institutions with Ag concentrations have slightly lower ratios of past due loans and the ALLL, relative to the size of their loan portfolios, than do other institutions. This may be in part due to the fact that stresses in the Ag economy have not thus far manifested themselves to a meaningful extent in loan delinquencies.

The relatively greater use of wholesale funding reported in Table 2 by both Ag banks in general, and institutions with Ag concentrations, reflects a trend that has been developing since about 2013 (See Chart 16). The increase in wholesale funding depicted in Chart 16 may be, in part, a way to meet increasing loan demand from farmers in response to stressed farm income.

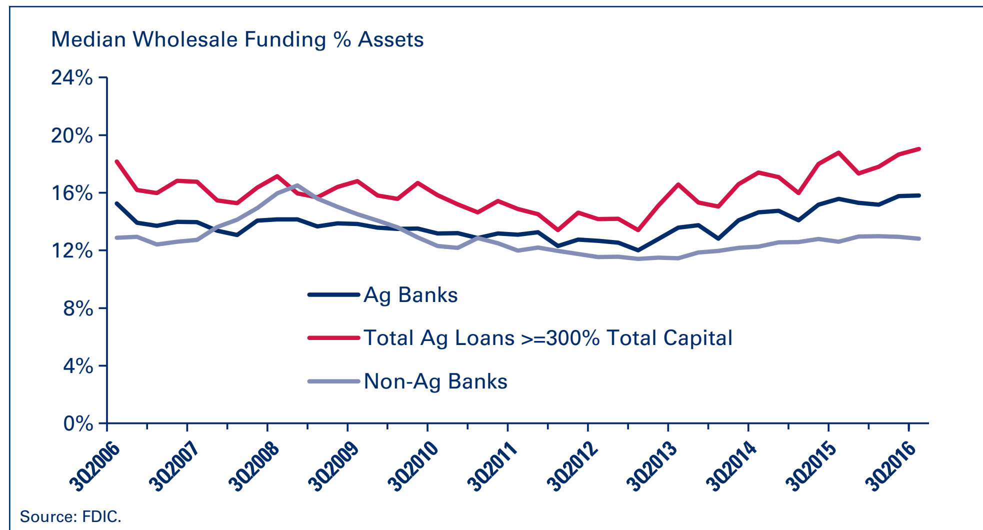
Table 2

Comparison of Median Financial Ratios
(as of September 30, 2016)

	Ag Banks	Ag Concentrated Institutions	Non-Ag Banks
Tier 1 Leverage Ratio	10.83%	10.07%	10.39%
Total Capital Ratio	16.47%	13.85%	16.15%
Pre-Tax Return on Assets	1.29%	1.36%	1.11%
Wholesale Funding to Asset Ratio	15.81%	19.05%	12.81%
Total Past Due Loan Ratio	1.29%	1.17%	1.30%
ALLL to Gross Loan Ratio	1.31%	1.21%	1.23%
One Year Total Loan Growth Ratio	4.90%	5.07%	6.74%

continued from pg. 17

Chart 16: Wholesale Funding Trend: Ag Banks vs. Ag Concentrated Institutions vs. Non-Ag Banks



Source: FDIC.

Since the 1980s when many Ag banks were in crisis, most of these institutions have not been unduly affected by changes in the economic cycle. However, the declines in commodity prices and farm incomes that have occurred in recent years are a reminder that cyclical economic forces continue to pose risks to the Ag bank sector.

In fact, while condition and performance metrics remain favorable, recent feedback from the FDIC's examinations of Ag lenders indicate some weaknesses have been noted. In some cases, borrowers' cash flow margins are eroding or negative, so that carryover operating loan balances will need to be restructured into longer-term loans and/or repaid via secondary means, such as partial asset sales. In particular, borrowers that exhibit high-cost operating structures (for example, those who rent a majority of land or who are heavily indebted on their farm operations) are showing the greatest cash flow stress. Conversely, borrowers owning most of their land debt-free are better positioned to deal with depressed commodity prices. Some expense reduction (for example, lower fertilizer costs) is now being realized; expenses tend to be "stickier" than revenues, so reductions in costs lag revenue declines. Ag asset values and borrower equity positions are showing signs of softening; past-due levels have been increasing somewhat year-over-year, and this trend could continue if low commodity prices persist. These trends highlight that, just as for CRE-concentrated banks, strong risk management is extremely important for banks that have significant Ag credit exposures relative to their capital.

OIL AND GAS

O&G lending is complex and highly specialized due to a number of factors such as, but not limited to, the capital-intensive nature of O&G exploration and production (E&P) activities, global supply and demand, geopolitical uncertainty, weather-related disruptions, and fluctuations and volatility in currency markets. As such, companies and borrowers that are directly or indirectly tied to, or reliant on, the O&G industry frequently experience volatility within key operational areas of their businesses that will directly impact their financial condition and repayment capacity.

Lending for O&G E&P activities in particular requires conservative underwriting, appropriate structuring, experienced and knowledgeable lending staff, and sound loan administration practices. For institutions doing business in O&G-dependent areas that would be affected by volatility in commodity prices, prudent management of geographic, industry, and borrower concentrations is needed for sound risk management of such exposures.

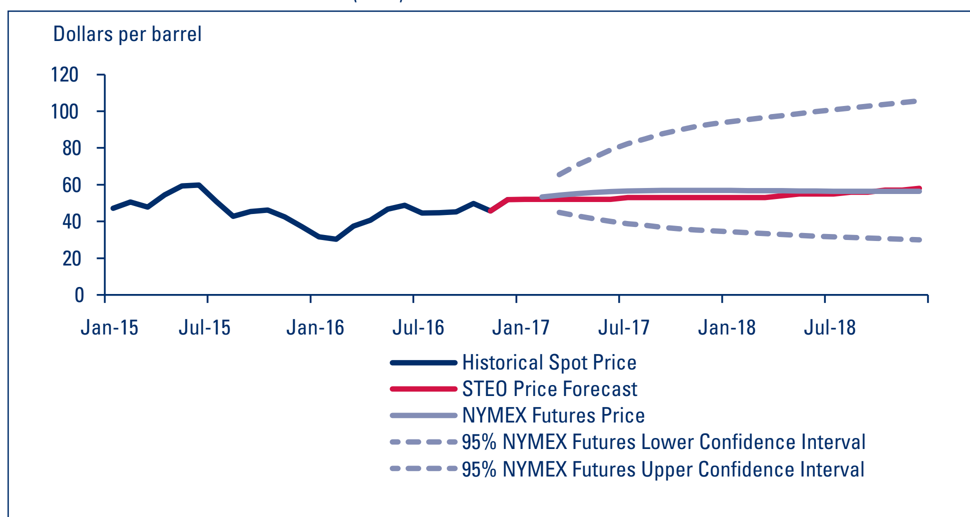
O&G Market Conditions

Beginning in 2014, supply and demand factors combined to drive oil prices down significantly. For example, spot West Texas Intermediate (WTI) prices were more than $100 per barrel in early 2014, but dipped into the low $40s per barrel by March 2015.[13] Since then, spot WTI prices bottomed in the $20s in the first quarter 2016,[14] and oil prices have continued to be volatile (See Chart 17).

Performance Trends for Institutions Exposed to O&G-related Credits

As indicated earlier, no Call Report data track O&G exposures, so the type of financial trend analysis reported in the sections of this article for CRE- and Ag-concentrated banks cannot be performed. However, other indicators show that distress in the O&G industry is having an effect on banks exposed to that sector. For example, results of the 2015 interagency Shared National Credits (SNC) Program[15] indicated that O&G-related credits were in the early stages of a downturn. The SNC report noted that the significant decline in oil prices was adversely affecting many O&G E&P companies, resulting in increased classified commitments in that subsector. The report went on to say that from 2010 to 2014, aggressive acquisition and exploration strategies funded by term debt raised leverage levels, elevating those borrowers' susceptibility to a protracted decline in oil prices.

Chart 17: West Texas Intermediate (WTI) Crude Oil Price



[13] https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RWTC&f=D

[14] https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RWTC&f=D

[15] Board of Governors of the Federal Reserve System, FDIC, Office of the Comptroller of the Currency, "Shared National Credits Review Notes High Credit Risk and Weaknesses Related to Leveraged Lending and Oil and Gas Credit," November 5, 2015; https://www.fdic.gov/news/news/press/2015/pr15089.html.

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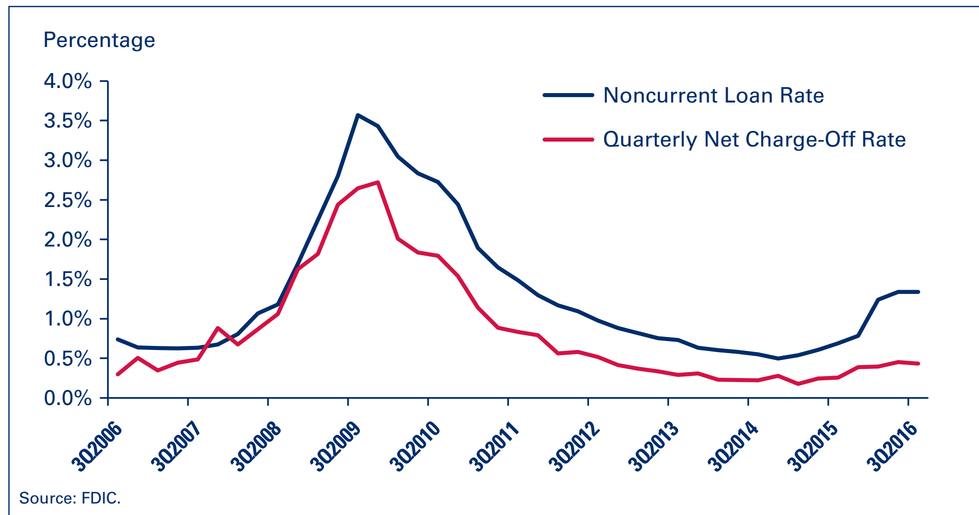
Results of the SNC Program review for February 2016 reported ongoing growth of credit risk in the O&G portfolio. Classified O&G loans totaled $77.0 billion, or 27.0 percent of total classified commitments, compared to $38.2 billion, or 16.7 percent, in 2015.[16]

While SNC results are focused on syndicated credits, which are generally centered in larger banks, broader-based signs of O&G credit deterioration have become evident. Namely, the noncurrent loan rate and quarterly net loan charge off rate recently have increased for commercial and industrial (C&I) loans, albeit from very low levels around 2014 and early 2015 (See Chart 18). As discussed in the FDIC's second quarter 2016 Quarterly Banking Profile, stress in energy sector loans has been a leading cause of the total volume of noncurrent C&I loans increasing for the banking industry as a whole.[17]

In addition to direct lending to O&G E&P companies, banks in energy-based regions experienced notable loan growth during the recent boom years, at least part of which resulted from increased lending to businesses that supported those E&P companies. However, many of those support businesses, and the local economies within which they operate are also experiencing stress as the E&P companies contract their workforces and otherwise reduce expenditures that would flow through to local economies.

Chart 19 shows loan performance trends for banks headquartered in Texas, Oklahoma, and Louisiana, three states with meaningful reliance on the energy sector, and shows that noncurrent C&I loan rates and net C&I loan charge-off rates have increased in those states more than for banks in other states. While many other industries are important to these states and performance trends appear manageable, it is

Chart 18: Commercial and Industrial Loan Performance: All Institutions

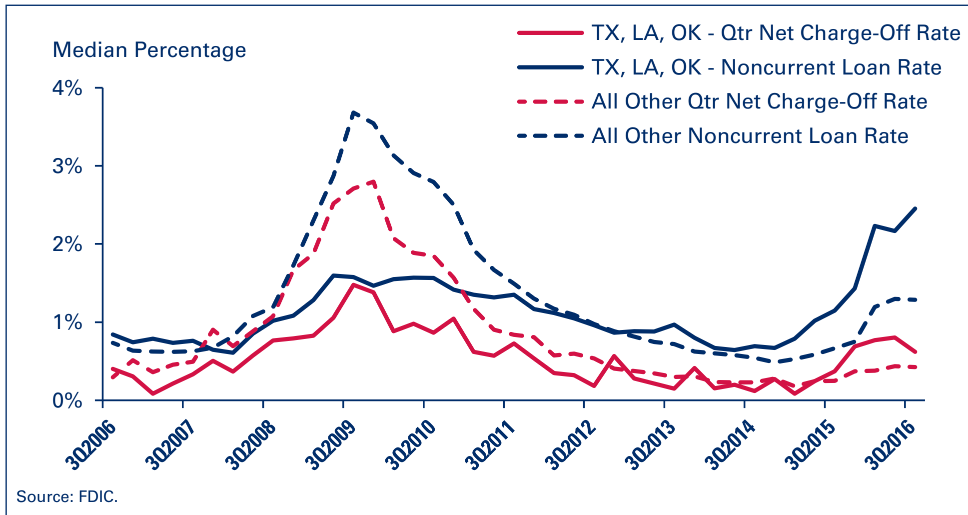


Source: FDIC.

[16] Board of Governors of the Federal Reserve System, FDIC, Office of the Comptroller of the Currency, "Shared National Credit Review Finds Risk Remains High, but Underwriting and Risk Management Improve," July 29, 2016; https://www.fdic.gov/news/news/press/2016/pr16059.html.

[17] Opening Statement Second Quarter 2016, *FDIC Quarterly Banking Profile*, August 30, 2016; https://www.fdic.gov/news/news/speeches/spaug3016.html.

Chart 19: Commercial and Industrial Loan Performance for Select Energy-Dependent States vs. All Other States



Source: FDIC.

reasonable to assume that overall deterioration in the O&G sector is a factor.

Risk-Management Trends for Institutions Exposed to O&G-related Credits

Feedback from the FDIC's examinations of institutions show that very few have significant exposure to O&G E&P entities, but that they do have exposure to borrowers that support those entities. In some cases, weaknesses in risk-management frameworks were noted. The most common areas of weakness that were noted included, but were not limited to, the following:

- Limited coverage of O&G lending exposures in loan policies;
- Indirect exposures not tracked or monitored; and
- Qualitative allocations for O&G exposure not considered in the ALLL analysis.

SUPERVISORY EXPECTATIONS REGARDING CREDIT RISK-MANAGEMENT PRACTICES

The FDIC has longstanding expectations for prudent credit risk management, which involve adopting and implementing lending policies, practices, and underwriting that are appropriate for the size and complexity of the bank's business model; maintaining strong administration and oversight of lending activities and the related funding strategy; and ensuring adequate ALLL and capital levels. It is critically important for institutions to establish a robust risk-management framework around the lending function, given that loans comprise the biggest asset class at most institutions. Studies regarding failures of banks focused on CRE show the serious consequences of inadequate credit risk management. The time to focus on strengthening risk-management practices is now, as portfolios and concentrations are building, but before financial metrics are adversely affected. Especially when loan demand is strong, competition can sometimes tempt institutions to loosen underwriting standards or loan administration practices in order to

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build or maintain market share. There are a few key resources for bankers to be aware of regarding lending in general and for the types of lending discussed in this article in particular, discussed below.

The *FDIC Risk Management Manual of Examination Policies* addresses credit risk-management issues in general and describes how examiners approach the review of the loan portfolio.[18] Additionally, Part 364 of the FDIC Rules and Regulations, "Standards for Safety and Soundness,"[19] adopted in 1995, implements section 39 of the *Federal Deposit Insurance Act*, which requires each federal banking agency to establish operational and managerial standards related to the following six areas:

- Internal controls, information systems, and internal audit systems;
- Loan documentation;
- Credit underwriting;
- Interest rate exposure;
- Asset growth; and
- Compensation fees and benefits.

Appendix A to Part 364, "Interagency Guidelines Establishing Standards for Safety and Soundness," (Safety and Soundness Standards) sets forth expectations for prudent risk management in these six areas. These standards are forward-looking in that they focus on risk management rather than performance metrics. Among other things, the Safety and Soundness Standards set forth expectations that a bank's senior management will take into account concentrations, asset growth, and the nature of the bank's operating environment when formulating and implementing lending policies and practices.

Part 365 of the FDIC Rules and Regulations, "Real Estate Lending Standards," adopted in 1993,[20] implements section 304 of the *Federal Deposit Insurance Corporation Improvement Act* and specifically addresses prudent practices for real estate lending, including CRE lending. Part 365 requires institutions to adopt written real estate lending policies that address:

- Loan portfolio diversification standards;
- Prudent underwriting standards, including loan-to-value limits, that are clear and measurable;
- Loan administration procedures; and
- Documentation, approval, and reporting requirements to monitor compliance with the bank's real estate lending policies.

Part 365 also requires institutions to monitor conditions in their real estate lending markets to ensure that their real estate lending policies remain appropriate.

The federal banking agencies issued the 2006 Guidance specifically to address CRE concentrations.[21] The 2006 Guidance states that it "*does not establish a concentration limit that applies to all institutions. Rather, the Guidance encourages institutions to identify and monitor credit*

[18] https://www.fdic.gov/regulations/safety/manual/section3-2.pdf

[19] 12 CFR part 364, https://www.fdic.gov/regulations/laws/rules/2000-8600.html

[20] 12 CFR part 365, https://www.fdic.gov/regulations/laws/rules/2000-8700.html. The standards set forth in Part 365 were also adopted by the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency.

[21] See footnote 5.

concentrations, establish internal concentration limits, and report all concentrations to management and the board of directors on a periodic basis." It goes on to say that institutions actively involved in CRE lending should perform ongoing risk assessments to identify concentrations and should adopt CRE risk-management processes that are appropriate for the size of the portfolio and the level and nature of concentrations. The following key elements should be addressed in the CRE concentration risk management-framework:

- Board and management oversight;
- Portfolio management;
- Management information systems;
- Market analysis;
- Credit underwriting standards;
- Portfolio stress testing and sensitivity analysis; and
- Credit risk review function.

The 2006 Guidance also indicates that the effectiveness of an institution's risk-management practices will be a key component of examiners' evaluations of institutions' CRE concentrations and that capital levels should be commensurate with the risk profile of the CRE portfolio.

In December 2015, the federal banking agencies issued a "*Statement on Prudent Risk Management for Commercial Real Estate Lending*"[22] to remind financial institutions of existing regulatory guidance (including the 2006 Guidance and Parts 364 and 365 of the FDIC Rules and Regulations, as well as other guidance) on prudent risk-management practices for CRE lending activity through economic cycles. This statement describes the substantial growth in many CRE markets, increasing CRE concentration levels, and historically low capitalization rates and high property values. Against this backdrop, the statement notes that there are indications that some institutions have weaknesses in CRE risk-management practices, namely easing of certain CRE underwriting standards, and mentions that the banking agencies will continue to pay special attention to CRE lending.

In July 2014, the FDIC issued an advisory on risk-management practices for Ag lending, *Prudent Management of Agricultural Credits through Economic Cycles,*[23] to reiterate existing supervisory expectations. The advisory indicates that financial institutions engaging in Ag lending should maintain capital, ALLL, and risk-management systems commensurate with activities and exposures. Among other things, risk-management systems should include appropriate processes to identify and manage Ag concentrations to individual borrowers or segments of the Ag industry.

In July 2016, the FDIC issued an advisory on risk-management practices around O&G lending, *Prudent Risk Management of Oil and Gas Exposures*.[24] This advisory indicates that since lending to O&G E&P companies is highly complex and specialized, most of this type of lending tends to be conducted by large banks. For community banks with O&G exposure, most

[22] FDIC, Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, *Statement on Prudent Risk Management for Commercial Real Estate Lending*, December 18, 2015; https://www.fdic.gov/news/news/press/2015/pr15100.html.

[23] FDIC, "Prudent Management of Agricultural Credits through Economic Cycles" (FIL-39-2014), July 16, 2014; https://www.fdic.gov/news/news/financial/2014/fil14039.html.

[24] FDIC, "Prudent Risk Management of Oil and Gas Exposures" (FIL-49-2016), July 27, 2016; https://www.fdic.gov/news/news/financial/2016/fil16049.html.

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of it comes from exposure to companies that support the O&G industry or through indirect exposure to companies that operate in energy-dependent markets and provide services to O&G workers, such as motels, restaurants, and other local businesses. In addition to reminders about risk-management practices and the importance of maintaining adequate capital, this statement provides guidance to senior management and boards of banks operating in markets dependent on O&G industries on quantifying and monitoring indirect exposures.

CONCLUSION

Concentrations remain a business reality for many institutions, especially community banks. In fact, institutions may have multiple concentrations.[25] History has shown that many banks have a solid track record in managing concentrations, but it has been accomplished through strong and forward-looking risk-management practices that provide for early intervention, ideally before asset quality metrics decline. A bank's senior management and its board should continue to pay close attention to the risk profile of the institution's credit concentrations, the appropriateness of the associated risk-management framework, and the fitness of associated risk-reward positions.

In particular, excessive reliance on potentially volatile funding sources to support lending concentrations could present challenges. Initially, the bank needs to ensure that loans being funded by these sources are prudently underwritten and appropriate for the bank's risk appetite and strategic plan. Going forward, the bank needs to monitor the suitability of the funding strategy and make adjustments as necessary.

Existing guidelines for capital adequacy note that an institution should hold capital commensurate with the level and nature of risk exposure.[26] All institutions, but especially those where risk is building, for example, with high and/or growing levels of concentrations, should ensure capital is sufficient in light of the level, nature, and quality of risk inherent in the loan portfolio, management expertise, historical performance, underwriting standards, funding strategy, risk-management practices, market conditions, and the ALLL.

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[25] For example as pointed out in FIL-49-2016, institutions doing business in O&G markets may also have other concentrations, such as in CRE lending or Ag lending, which could also be adversely affected by declining commodity prices or economic conditions.

[26] Uniform Financial Institutions Ratings System, January 1, 1997; https://www.fdic.gov/regulations/laws/rules/5000-900.html.

Overview of Selected Regulations and Supervisory Guidance

This section provides an overview of recently released regulations and supervisory guidance, arranged in reverse chronological order. Press Release (PR) and Financial Institution Letter (FIL) designations are included so the reader can obtain more information.

ACRONYMS and DEFINITIONS	
CFPB	Consumer Financial Protection Bureau
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FRB	Federal Reserve Board
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
Federal bank regulatory agencies	FDIC, FRB, and OCC
Federal financial institution regulatory agencies	CFPB, FDIC, FRB, NCUA, and OCC

Subject	Summary
Agencies Extend Comment Period for Proposed Rulemaking on Enhanced Cyber Risk Management Standards (PR-03-2017, January 13, 2017)	The federal bank regulatory agencies extended the comment period for the proposed rulemaking on enhanced cyber risk management standards for large and interconnected entities under their supervision, including service providers, until February 17, 2017. See https://fdic.gov/news/news/press/2017/pr17003.html
Community Banking Conference 2016 Highlights (FIL-3-2017, January 5, 2017)	The FDIC is providing highlights from the Community Banking Conference held April 6, 2016; the theme was *Strategies for Long-Term Success.* Four panels discussed the community banking model, regulatory developments, managing technology challenges, and ownership structure and succession planning. See https://fdic.gov/news/news/financial/2017/fil17003.html
Examination Cycle: Joint Final Rules on Expanded Examination Cycle for Certain Small Insured Depository Institutions and U.S. Branches and Agencies of Foreign Banks (FIL-2-2017, January 4, 2017)	The FDIC and the other federal financial institution regulatory agencies have adopted final rules permitting insured depository institutions with up to $1 billion in total assets, and that meet certain other criteria, to qualify for an 18-month on-site examination cycle. These rules allow the agencies to better focus supervisory resources on institutions which present capital, managerial, or other issues of supervisory concern while reducing regulatory burden on small, well-capitalized and well-managed institutions. See https://fdic.gov/news/news/financial/2017/fil17002.html

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Subject	Summary
New Consolidated Reports of Condition and Income (Call Report) for Small Institutions (FIL-1-2017, January 4, 2017)	The FFIEC has approved the implementation of a new streamlined Call Report for eligible small institutions and other burden-reducing changes to other versions of the Call Report. The implementation of this new report is part of the FFIEC's community bank Call Report burden-reduction initiative. The revised requirements will take effect March 31, 2017, subject to approval by the U.S. Office of Management and Budget. See https://fdic.gov/news/news/financial/2017/fil17001.html
FDIC Seeking Comment on New Handbook for *De Novo* Organizers Applying for Deposit Insurance (PR-110-2016 /FIL-81-2016, December 22, 2016)	The FDIC is seeking comment on a handbook developed to facilitate the process of establishing new banks. The handbook provides an overview of the business considerations and statutory requirements that *de novo* organizers will face as they work to establish a new depository institution and apply for deposit insurance. The comment period ends February 20, 2017. See https://fdic.gov/news/news/financial/2016/fil16081.html
New Accounting Standard on Credit Losses: Frequently Asked Questions (FIL-79-2016, December 19, 2016)	The federal financial institution regulatory agencies are issuing a *Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses.* The document focuses on the application of the current expected credit losses methodology and related supervisory expectations. See https://www.fdic.gov/news/news/financial/2016/fil16079.html
Agencies Announce Determinations on October Resolution Plan Submissions of Five Systemically Important Domestic Banking Institutions (PR-109-2016, December 13, 2016)	The FDIC and FRB announced that Bank of America, Bank of New York Mellon, JP Morgan Chase, and State Street adequately remediated deficiencies in their 2015 resolution plans. The agencies also announced that Wells Fargo did not adequately remedy all of its deficiencies and will be subject to restrictions on certain activities until the deficiencies are remedied. See https://www.fdic.gov/news/news/press/2016/pr16109.html
Agencies Finalize Rule Expanding Number of Banks and Savings Associations Qualifying for 18-Month Examination Cycle (PR-107-2016, December 12, 2016)	The federal bank regulatory agencies issued interagency final rules that increase the number of small banks and savings associations eligible for an 18-month examination cycle rather than a 12-month cycle. The interagency rules are intended to reduce regulatory compliance costs for smaller institutions, while maintaining safety-and-soundness protections. These rules have been in effect since February 29, 2016, pursuant to the interim final rules previously adopted by the agencies. See https://www.fdic.gov/news/news/press/2016/pr16107.html
Banker Teleconference Series on Military Lending Act Regulations (FIL-78-2016, November 21, 2016)	The FDIC will co-host an interagency webinar on December 1, 2016 that will focus on the *Military Lending Act* (MLA) regulations and the related, recently released Interpretive Rule. See https://www.fdic.gov/news/news/financial/2016/fil16078.html

Subject	Summary
FDIC and SBA Announce Enhanced *Money Smart for Small Business Curriculum* (PR-102-2016, November 16, 2016)	The FDIC and the U.S. Small Business Administration announced enhancements to *Money Smart for Small Business*, a resource that provides practical guidance for starting and managing a small business. The new modules focus on managing cash flow, planning for a healthy business, and helping learners to determine if owning a business is a good fit. See https://www.fdic.gov/news/news/press/2016/pr16102.html
FDIC Board Approves Final Rule on Deposit Account Recordkeeping Requirements to Facilitate Timely Access to Deposits in Large Bank Failures (PR-101-2016, November 15, 2016)	The FDIC approved a final rule establishing recordkeeping requirements for FDIC-insured institutions with a large number of deposit accounts to facilitate rapid payment of insured deposits to customers if the institutions were to fail. The rule applies to insured depository institutions with more than two million deposit accounts, and generally requires these institutions to maintain complete and accurate data on each depositor. See https://www.fdic.gov/news/news/press/2016/pr16101.html
CFPB Issues Final Rule for Prepaid Accounts Pursuant to Regulations E and Z (FIL-76-2016, November 8, 2016)	The CFPB issued a final rule establishing new consumer compliance requirements for prepaid accounts pursuant to Regulations E and Z. These requirements govern disclosures, limited liability and error resolution protections, credit features, and making account agreement information publicly available for prepaid accounts, among other provisions. See https://www.fdic.gov/news/news/financial/2016/fil16076.html
Final Guidance Issued on the Uniform Interagency Consumer Compliance Rating System (FIL-75-2016, November 8, 2016)	The FFIEC is issuing final revisions to the Uniform Interagency Consumer Compliance Rating System to reflect the regulatory, supervisory, technological, and market changes that occurred in the years since the system was established. The revisions are designed to more fully align the rating system with the FFIEC Agencies' current risk-based, tailored examination approaches. See https://www.fdic.gov/news/news/financial/2016/fil16075.html
FDIC Publishes Affordable Mortgage Lending Guide, Part II: State Housing Finance Agencies (FIL-73-2016/PR-99-2016, November 3, 2016)	The FDIC published a new guide to help community bankers learn more about grant and mortgage loan programs offered by State Housing Finance Agencies. The *Affordable Mortgage Lending Guide, Part II: State Housing Finance Agencies* describes programs offered by State Housing Finance Agencies across the country. See https://www.fdic.gov/news/news/financial/2016/fil16073.html
Agencies Request Comment on Proposed Private Flood Insurance Rule (PR-97-2016, October 31, 2016)	The FRB, OCC, FDIC, NCUA, and Farm Credit Administration (FCA) are requesting comment on a joint notice of proposed rulemaking to implement provisions of the *Biggert-Waters Flood Insurance Reform Act* that require regulated lending institutions to accept certain private flood insurance policies in addition to policies made available by the Federal Emergency Management Agency. The deadline for submitting comments is January 6, 2017. See https://www.fdic.gov/news/news/press/2016/pr16097.html

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Subject	Summary
FDIC Offers Electronic Filing of Part 363 Annual Reports and Other Reports and Notices (FIL-71-2016, October 25, 2016)	The FDIC has launched a program that provides insured depository institutions subject to Part 363 of the FDIC's regulations the option to file the annual reports and other reports and notices required under Part 363 electronically through the FDIC's secure website, FDIC*connect*, rather than in paper form. See https://www.fdic.gov/news/news/financial/2016/fil16071.html
Agencies Issue Advanced Notice of Proposed Rulemaking on Enhanced Cyber Risk Management Standards (PR-92-2016, October 19, 2016)	The federal bank regulatory agencies approved an advance notice of proposed rulemaking inviting comment on a set of potential enhanced cybersecurity risk management and resilience standards that would apply to large and interconnected entities under their supervision. The standards would also apply to services provided by third parties to these firms. The deadline for comment is January 17, 2017. See https://www.fdic.gov/news/news/press/2016/pr16092.html
FFIEC Cybersecurity Assessment Tool Frequently Asked Questions (FIL-68-2016, October 18, 2016)	The FFIEC issued a Frequently Asked Questions (FAQ) guide related to the Cybersecurity Assessment Tool (CAT). The FAQs clarify points in the CAT and supporting materials based on questions received by the FFIEC members during the past year. See https://www.fdic.gov/news/news/financial/2016/fil16068.html
FDIC Announces Youth Savings Pilot Symposium (PR-91-2016, October 18, 2016)	The FDIC will hold a symposium on fostering youth savings on October 21, 2016. The symposium, "Learning to Save – Saving to Learn," will bring together representatives from nearly 20 banks participating in the FDIC's Youth Savings Pilot program, as well as non-profit and school partners. Participants will share their approaches to combining financial education with the opportunity to open a savings account. See https://www.fdic.gov/news/news/press/2016/pr16091.html
Banker Teleconference Series on Overdrafts (FIL-66-2016, October 17, 2016)	The federal financial institution regulatory agencies are holding a webinar on November 9, 2016 to discuss overdraft practices. FDIC staff will cover requirements and best practices regarding bank overdraft programs. See https://www.fdic.gov/news/news/financial/2016/fil16066.html
FDIC Releases Revised Examination Procedures for Military Lending Act (FIL-65-2016, October 17, 2016)	The FDIC has released revised interagency examination procedures that reflect the Department of Defense's 2015 amendments to the implementing regulations of the MLA of 2006 and its August 2016 interpretive rule that provide guidance on certain questions received regarding compliance with the MLA rule. The FDIC is also providing guidance on its initial supervisory expectations in connection with its examinations of financial institutions for compliance with the MLA rule. See https://www.fdic.gov/news/news/financial/2016/fil16065.html

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FDIC Advisory Committee will Meet to Discuss Unbanked and Underbanked Survey (PR-89-2016, October 13, 2016)	The FDIC Advisory Committee on Economic Inclusion will meet on October 20, 2016 to discuss the results and release of the full *FDIC National Survey of Unbanked and Underbanked Households*. Other topics for discussion include expanding access to safe transaction accounts and lessons learned from the FDIC Youth Savings Pilot Program. See https://www.fdic.gov/news/news/press/2016/pr16089.html
FDIC Launches Financial Services Website in Spanish (PR-88-2016, October 6, 2016)	The FDIC launched a new Spanish-language website with links to the agency's resources in Spanish. The website features links to webinars and video presentations that cover deposit insurance, consumer protection, and the FDIC's *Money Smart* education program. See https://www.fdic.gov/news/news/press/2016/pr16088.html
U.S. and European Officials to Hold Planned Coordination Exercise on Cross-Border Resolution Planning (PR-87-2016, October 5, 2016)	Senior officials representing resolution authorities in the United States and Europe will hold the second in an ongoing series of planned exercises on October 10, 2016 to enhance coordination on cross-border resolution. The exercise will be hosted by the FDIC and will include senior officials from the Treasury Department, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission, and the Federal Reserve Bank of New York. See https://www.fdic.gov/news/news/press/2016/pr16087.html
Agencies Post Public Sections of "Targeted Submissions" for Eight Firms (PR-86-2016, October 4, 2016)	The FRB and the FDIC posted the public portions of the required "targeted submissions" for the eight systemically important, domestic banking institutions. To foster transparency, the agencies required all the firms to file a public portion of their targeted submissions. See https://www.fdic.gov/news/news/press/2016/pr16086.html
FDIC Releases Updated Summary of Deposits Annual Survey (PR-83-2016, September 30, 2016)	The FDIC released the Summary of Deposits (SOD) survey of branch office deposits as of June 30, 2016 for all FDIC-insured institutions. The SOD provides deposit totals for each of the more than 91,000 domestic offices operated by more than 6,000 FDIC-insured commercial and savings banks, savings associations, and U.S. branches of foreign banks. See https://www.fdic.gov/news/news/press/2016/pr16083.html
FDIC Announces a New Resource for Community Banks: Affordable Mortgage Lending Guide, Part I, and the Affordable Mortgage Lending Center (FIL-60-2016/PR-81-2016, September 15, 2016)	The FDIC published a guide and launched an online resource center to help community banks. The *Affordable Mortgage Lending Guide* organizes information about single-family mortgage products from federal agencies and government-sponsored enterprises and provides technical assistance for community banks on affordable mortgage credit options. See https://www.fdic.gov/news/news/financial/2016/fil16060.html

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Subject	Summary
Agencies Issue Study on Banking Activities and Investments (PR-79-2016, September 8, 2016)	The federal bank regulatory agencies released a report on the activities and investments that banking entities may engage in under applicable law. Each agency prepared the section of the report relative to the banking entities it supervises. Each of the three sections includes a discussion of permissible activities, risk mitigation, legal limitations, and specific recommendations as required by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act). See https://www.fdic.gov/news/news/press/2016/pr16079.html
FDIC to Hold 16th Annual Bank Research Conference (PR-78-2016, September 6, 2016)	The FDIC and the *Journal for Financial Services Research* will sponsor the 16th Annual Bank Research Conference September 8-9, 2016 in Arlington, Virginia. The conference features a presentation of papers and keynote addresses by FDIC Chairman Martin J. Gruenberg and Professor Douglas Diamond of the University of Chicago's Booth School of Business. See https://www.fdic.gov/news/news/press/2016/pr16078.html
FDIC Consumer News Offers Tips on Choosing and Using the Right Bank Account (PR-71-2016, August 22, 2016)	The Summer 2016 edition of *FDIC Consumer News* features tips on how to choose and manage a checking or savings account wisely. The edition also has articles on depositing a check using a smartphone or tablet, avoiding credit and debit card frauds, and preparing financially for a flood, fire or other disaster. See https://www.fdic.gov/news/news/press/2016/pr16071.html
FDIC Releases Summer Edition of Supervisory Insights Journal (FIL-57-2016/PR-70-2016, August 22, 2016)	The Summer 2016 edition of *Supervisory Insights* features two articles of interest to examiners, bankers, and supervisors. The first article provides an overview of the current state of *de novo* bank formation, and the second article summarizes the types of issues most frequently observed by FDIC risk management examiners as reflected in the Matters Requiring Board Attention page of recent Reports of Examination. See https://www.fdic.gov/news/news/financial/2016/fil16057.html
Agencies Announce Availability of 2015 Small Business, Small Farm, and Community Development Lending Data (PR-68-2016, August 18, 2016)	The federal bank regulatory agencies announced the availability of data on small business, small farm, and community development lending reported by certain commercial banks and savings associations, pursuant to the *Community Reinvestment Act* (CRA). See https://www.fdic.gov/news/news/press/2016/pr16068.html
Ability-to-Repay and Qualified Mortgages Rule Videos Updated (FIL-56-2016, August 17, 2016)	As part of the FDIC's Community Banking Initiative, the agency released updated technical assistance videos on the *Ability-to-Repay and Qualified Mortgages Rule*. See https://www.fdic.gov/news/news/financial/2016/fil16056.html

Subject	Summary
Proposed New Call Report for Small Institutions (FIL-55-2016, August 17, 2016)	The federal bank regulatory agencies are requesting comment on a proposed new streamlined and less burdensome version of the Call Report for eligible small institutions and proposed burden-reducing revisions to the other two versions of the Call Report. The proposal would define "eligible small institutions" as institutions with total assets less than $1 billion and domestic offices only. The FFIEC has approved this proposal as part of its community bank Call Report burden-reduction initiative. The Call Report revisions are proposed to take effect March 31, 2017. Institutions are encouraged to comment on the proposal by October 14, 2016. See https://www.fdic.gov/news/news/financial/2016/fil16055.html
FDIC Extends Comment Period on Third-Party Lending Guidance (PR-67-2016, August 4, 2016)	The FDIC is extending the comment period for proposed guidance on third-party lending. Comments on the proposed guidance, which was published on July 29, 2016, must be received on or before October 27, 2016. The proposed third-party lending guidance outlines the risks that may be associated with third-party lending as well as the expectations for a risk management program, supervisory considerations, and examination procedures related to third-party lending. See https://www.fdic.gov/news/news/press/2016/pr16067.html
Regulated Institutions to Submit Self-Assessments of Diversity Policies and Practices (PR-64-2016, August 2, 2016)	The federal bank regulatory agencies provided information on how the financial institutions they regulate may begin to submit self-assessments of their diversity policies and practices as of year-end 2015, and issued FAQs about the process. See https://www.fdic.gov/news/news/press/2016/pr16064.html
FRB and FDIC Extend Deadline for 38 Resolution Plan Submissions (PR-63-2016, August 2, 2016)	The FRB and the FDIC announced that 38 firms will be required to submit their next resolution plans by December 31, 2017. Previously, the firms were required to submit their next plans by December 31, 2016. These firms include 36 domestic bank holding companies and foreign banking organizations, as well as two nonbank financial companies designated by the Financial Stability Oversight Council. See https://www.fdic.gov/news/news/press/2016/pr16063.html
Agencies Finalize Rule Exempting Certain Commercial and Financial End Users from Initial and Variation Margin Requirements (PR-62-2016, August 1, 2016)	The FRB, OCC, FDIC, FCA, and Federal Housing Finance Agency announced a final rule exempting certain commercial and financial end users from margin requirements for certain swaps not cleared through a clearinghouse. The exemptions were first adopted by interim final rule published in the *Federal Register* in November 2015 with a request for public comment. The final rule discusses the comments received and adopts the earlier interim final rule as final without change. See https://www.fdic.gov/news/news/press/2016/pr16062.html
FDIC Seeks Comment on Bank Appeals Guidelines (FIL-52-2016, July 29, 2016)	The FDIC is seeking comments on updates to its guidelines for institutions to appeal certain supervisory determinations. The proposed guidelines expand the circumstances under which banks may appeal certain material supervisory determinations. The deadline for submitting comments is October 3, 2016. See https://www.fdic.gov/news/news/financial/2016/fil16052.html

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FDIC Issues Reminder on Examination Findings (FIL-51-2016, July 29, 2016)	The FDIC is updating and reissuing FIL-13-2011, *Reminder on FDIC Examination Findings*, dated March 1, 2011, to re-emphasize the importance of open communication regarding supervisory findings. See https://www.fdic.gov/news/news/financial/2016/fil16051.html
FDIC Seeking Comment on Proposed Guidance for Third-Party Lending (FIL-50-2016/PR-61-2016, July 29, 2016)	The FDIC is seeking comment on proposed *Guidance for Third-Party Lending* to set forth safety-and-soundness and consumer compliance measures FDIC-supervised institutions should follow when lending through a business relationship with a third party. The proposed guidance is intended to supplement the FDIC's existing *Guidance for Managing Third-Party Risk*, which is applicable to any of an institution's third-party arrangements, including lending through a third party. The deadline for submitting comments is October 27, 2016. See https://www.fdic.gov/news/news/financial/2016/fil16050.html
Shared National Credit Review Finds Risk Remains High, but Underwriting and Risk Management Improve (PR-59-2016, July 29, 2016)	Credit risk in the Shared National Credit portfolio remained elevated, but underwriting and risk management practices improved from prior assessments, according to a review of large shared and complex credits released today by the federal bank regulatory agencies. See https://www.fdic.gov/news/news/press/2016/pr16059.html
FDIC Reminds Banks to Maintain Prudent Risk Management of Oil and Gas Exposures (FIL-49-2016, July 27, 2016)	FDIC-supervised institutions with direct or indirect oil and gas (O&G) exposures are reminded to maintain sound underwriting standards, strong credit administration practices, and effective risk management strategies. When O&G related borrowers experience financial difficulties, the FDIC encourages financial institutions to work constructively with borrowers to strengthen the credits and to mitigate losses where possible. See https://www.fdic.gov/news/news/financial/2016/fil16049.html
FDIC Releases Technical Assistance Video on Corporate Governance (FIL-46-2016, July 19, 2016)	The FDIC released an updated video on community bank corporate governance as part of its Community Banking Initiative and Technical Assistance Video Program. The video is designed to assist community bank directors and officers in developing a sound corporate governance framework. See https://www.fdic.gov/news/news/financial/2016/fil16046.html
Agencies Release Final Revisions to Interagency Q&A Regarding Community Reinvestment (PR-57-2016, July 15, 2016)	The federal bank regulatory agencies with responsibility for CRA rulemaking published final revisions to "Interagency Questions and Answers Regarding Community Reinvestment." The Questions and Answers document provides additional guidance to financial institutions and the public on the agencies' CRA regulations. See https://www.fdic.gov/news/news/press/2016/pr16057.html

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