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FDIC Report Focuses on Credit Risk Assessment of Investment Securities

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"Credit Risk Assessment of Bank Investment Portfolios," which appears in the Summer 2013 issue of ***Supervisory Insights*** released today, discusses the new standards of creditworthiness banks now must apply to investment portfolios. These standards reinforce the importance of effective credit risk due diligence by financial institutions. This article discusses supervisory expectations for credit risk due diligence of the investment portfolio, provides examples of how to conduct due diligence, and lists questions examiners may consider when assessing an institution's credit risk management practices.

"Financial institutions should have a process for determining whether their investment securities meet the new creditworthiness standards. This process cannot rely exclusively on credit agency ratings," said Doreen R. Eberley, Director, Division of Risk Management Supervision. "We understand there will be a learning curve as bankers develop appropriate due diligence methodologies, and we are providing an example of the type of analysis a bank could perform."

As banks expand their use of technology, and incidents of cyber threats and cyber-attacks increase, the information technology (IT) examination represents a critical tool for helping banks meet these challenges. "The Evolution of Bank Information Technology Examinations" describes the heightened importance of IT examinations to ensure effective controls and systems are in place to mitigate IT risk.

Also in this issue, "Mergers and Acquisitions: A Compliance Perspective" looks at the importance for financial institutions of ensuring compliance with consumer protection rules and regulations during the planning process for mergers and acquisitions. This article identifies issues for bankers to consider when conducting compliance-focused due diligence.

Supervisory Insights provides a forum for discussing how bank regulation and policy are put into practice in the field, sharing best practices, and communicating about the emerging issues that bank supervisors face. The journal is available on the FDIC's Web site at http://www.fdic.gov/regulations/examinations/supervisory/insights/index.html. Suggestions for future topics and requests for permission to reprint articles should be e-mailed to supervisoryjournal@fdic.gov. Requests for print copies should be e-mailed to publicinfo@fdic.gov.

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Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 7,019 banks and savings associations, and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars—insured financial institutions fund its operations.

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