

Guidance on Correspondent Bank's Concentration Risks

May 5, 2010

Dear clients and friends:

Federal banking regulators on April 29 issued a **final guidance** that addresses the risks associated with funding and credit concentrations arising from correspondent banking relationships.

The guidance outlines the regulatory agencies' expectations for institutions to identify, monitor and manage correspondent concentration risk on a stand-alone and organization-wide basis, including exposures to correspondents' affiliates and subsidiaries.

The guidance also reinforces the supervisory view that financial institutions should perform appropriate due diligence on all credit exposures to, and funding transactions with, other financial institutions as part of their risk management policies and procedures.

In addition, the guidance lists several factors that each institution should use to determine if it has a credit concentration with a correspondent. The guidance noted that regulators have "generally considered credit exposures greater than 25 percent of total capital as concentrations."

The Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency and Office of Thrift Supervision issued the guidance. It is effective upon publication in the Federal Register, which is likely before May 15.

The guidance applies to FDIC-insured banks, bank holding companies, savings associations and savings and loan

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holding companies, as well as to subsidiaries of such institutions and holding companies.

The guidance includes an Appendix A, with details on calculating correspondent exposures on an organization-wide basis, and an Appendix B, with detail on calculating correspondent exposures on a correspondent-only basis.

The guidance does not supplant or amend applicable regulations such as

Regulation F on Limitations on Interbank Liabilities.

If you would like additional information on the regulators' new guidance on correspondent concentration risks, do not hesitate to contact us at (305) 373-5500.

Sincerely,



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