Letter from the Director

Loan growth has been a key driver of increasing earnings in the banking industry, and well-managed institutions understand that it is prudent to implement effective policies and procedures to monitor this growth. This issue of *Supervisory Insights* focuses on the importance to banks of adopting a forward-looking approach to identifying and managing credit risk.

The implementation of an effective credit management information system (MIS) is a critical component of an institution's overall credit risk management program. Performance metrics, including trends in charge-offs, delinquency ratios, nonaccrual loans, restructured loans, and adversely classified assets, are an integral part of a credit MIS program. However, an overreliance on these lagging indicators may make it difficult for management to adequately identify emerging risks in the loan portfolio.

Forward-looking indicators, such as an increase in policy exceptions, an easing of underwriting standards, and higher concentration levels, promote the identification of emerging risks and tend to be more predictive of future performance. "Credit Management Information Systems: A Forward Looking Approach" examines the use of a forward-looking MIS, which can be a powerful tool in a bank's strategic decision-making process. The article also emphasizes the importance of establishing and maintaining a strong governance framework to effectively administer the MIS and credit risk oversight.

"Underwriting Trends and Other Highlights from the FDIC's Credit and Consumer Products/Services Survey" (Credit Survey) summarizes examiners' views of credit and funding risks at FDIC-supervised institutions. The results suggest that credit risk and liquidity risk are increasing, as reflected in a higher frequency of surveys that report risks associated with loan growth, out-of-territory lending, and credit and funding concentrations. The article also explores the concept of layered risk, which has been on the rise as institutions rely more on noncore or potentially volatile funding sources to support loan growth. This article is the most recent in a series of *Supervisory Insights* articles that summarize the results of the post-examination Credit Survey.

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

We hope you take the time to read both articles in this issue and find them to be valuable resources. We encourage our readers to provide feedback and suggest topics for future issues. Please email your comments and suggestions to SupervisoryJournal@fdic.gov.

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