**Federal Deposit Insurance Corporation**
550 17th Street NW, Washington, D.C. 20429-9990

**Financial Institution Letter**
**FIL-13-2009**
**March 3, 2009**

# THE USE OF VOLATILE OR SPECIAL FUNDING SOURCES BY FINANCIAL INSTITUTIONS THAT ARE IN A WEAKENED CONDITION

**Summary:** Directors and officers of financial institutions are responsible for overseeing their institutions' operations in a safe and sound manner. For an institution that is in a weakened financial condition, it is even more critical that management administer the institution in such a way to stabilize the risk profile and strengthen the financial condition. Institutions rated 3, 4 or 5 are expected to limit balance sheet growth and take actions to improve their risk profile while they work to remedy their problems. Institutions rated 3, 4 or 5 that engage in material growth strategies, especially those that are funded with volatile liabilities or temporarily expanded FDIC insurance or liability guarantees pose a significant risk to the deposit insurance fund and will be subject to heightened supervisory review and enforcement.

**Distribution:**
FDIC-Supervised Banks

**Suggested Routing:**
Chief Executive Officer
Chief Operations Officer
Compliance Officer

**Related Topics:**
Brokered Deposits
12 C.F.R. Part 336.7

**Contact:**
Mindy West, Chief Policy and Planning, Division of Supervision and Consumer Protection, at mwest@fdic.gov or 202-898-7221

**Note:**
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2009/index.html.

To receive FILs electronically, please visit http://www.fdic.gov/about/subscriptions/fil.html.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

## Highlights

- FDIC-supervised institutions, regardless of rating, that engage in aggressive growth strategies or rely excessively on a volatile funding mix are subject to heightened off-site monitoring and on-site examinations that are more extensive than those applicable to other institutions. Such strategies, in specific circumstances, may result in higher deposit insurance premiums.

- Institutions rated "3," "4," or "5" are expected to implement a plan to stabilize or reduce risk exposure and limit growth.

- This plan should not include the use of volatile liabilities or temporarily expanded FDIC insurance or liability guarantees to fund aggressive asset growth or otherwise materially increase the institution's risk profile.

- Continuation of prudent lending practices generally would not be considered as increasing the risk profile.

- Corrective programs may include requirements for notification to the appropriate Regional Director before undertaking asset growth or material changes in asset or liability composition.

Financial Institution Letter
FIL-13-2009
March 3, 2009

**THE USE OF VOLATILE OR SPECIAL FUNDING SOURCES BY FINANCIAL INSTITUTIONS THAT ARE IN A WEAKENED CONDITION**

Directors and officers of institutions that are in a weakened financial condition are expected to oversee the operations of these institutions in a way that stabilizes the risk profile and strengthens the financial condition. Actions taken by a weak financial institution to increase its risk profile are inconsistent with this expectation.

The FDIC monitors "1"- and "2"-rated institutions to identify characteristics that may indicate heightened risk of future problems. Aggressive asset growth strategies or reliance on non-core liabilities to fund riskier asset classes will result in heightened off-site monitoring and on-site examinations that are more extensive than those applicable to other institutions. Such strategies, in specific circumstances, may result in higher deposit insurance premiums.

Institutions rated "3," "4," or "5" that aggressively grow assets or significantly shift balance sheet composition to riskier asset classes may be engaging in unsafe and unsound practices. Concern is elevated when such activities are funded by soliciting high-cost brokered or internet deposits, deposits or other funds that are newly insured or guaranteed pursuant to temporary FDIC programs, secured borrowings or other volatile wholesale funding sources. Heavy reliance on non-core funding sources can increase a bank's liquidity risk profile, reduce an institution's franchise value, and increase the FDIC's resolution costs in the event of failure.

FDIC-supervised institutions rated "3," "4," or "5" are expected to implement a plan to stabilize or reduce their risk exposure and limit growth. This plan should not include the use of volatile liabilities or temporarily expanded FDIC insurance or liability guarantees to fund aggressive asset growth or otherwise materially increase the institution's risk profile. Continuation of prudent lending practices generally would not be considered as increasing the risk profile.

Corrective programs may include requirements for notification to the appropriate Regional Director before undertaking asset growth or material changes in asset or liability composition.

Sandra L. Thompson
Director
Division of Supervision and Consumer Protection