Letter from the Director

Supervisory Insights is entering its fifteenth year of publication. The journal has sought to provide a forum for discussing how bank regulation and policy are put into practice in the field, and has committed to communicating information about emerging issues that banks and bank supervisors are facing. The Summer 2018 issue continues this mission by reviewing bank lending to the highly specialized oil and gas (O&G) industry and examining bank credit risk grading systems.

The steep drop in oil prices beginning in 2014 tested the risk management practices of insured banks active in O&G lending and other banks operating in geographic areas that depend on the O&G industry. "Oil Price Volatility and Bank Performance: A View from the Supervisory Process" shares observations from FDIC surveillance efforts and supervisory activities, including on-site examinations. These observations can be a useful resource to banks with direct or indirect exposure to the O&G sector, as they consider capital planning, loan loss reserve practices, and strategic planning more generally.

The information and analysis presented in the article "Credit Risk Grading Systems: Observations from a Horizontal Assessment" are drawn from examiner observations about the loan risk-rating systems at selected large state nonmember banks. Credit risk grading systems are integral to a bank's ability to identify, monitor, and control risk, and vary greatly across the banking industry. The article illustrates how strong credit grading systems incorporate clearly identifiable processes and establish a sound governance framework. Strengthening risk grading frameworks and assessing data availability and accuracy can enhance a bank's ability to proactively identify risk during times of economic stress.

This issue of *Supervisory Insights* also includes an overview of recently released regulations and other items of interest.

We hope you read both articles in this issue and find the information interesting and useful. We encourage our readers to provide feedback and suggest topics for future issues. Please email your comments and suggestions to SupervisoryJournal@fdic.gov.

Doreen R. Eberley
Director
Division of Risk Management Supervision