Letter from the Director

With the enactment on July 21, 2010, of the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (Dodd-Frank Act), a framework is now in place to address many of the weaknesses in the financial system that brought about the recent crisis. This legislation establishes enhanced prudential standards for systemic nonbank financial companies as well as bank holding companies, ends "too big to fail," and strengthens consumer protections across financial sectors with the creation of the Consumer Financial Protection Bureau. Considerable work now lies ahead for financial institution regulators and supervisors to develop and implement the regulations required by this landmark legislation.

"Trust Preferred Securities and the Capital Strength of Banking Organizations" looks closely at the role of these hybrid securities during the financial crisis and highlights the fact that the use of TruPS in tier 1 capital enabled large bank holding companies (BHCs), as a group, to operate with substantially less loss-absorbing capital than permitted for insured banks. Evidence also suggests that institutions relying on these instruments took more risks and failed more often than those that did not include TruPS in tier 1 capital. The eventual elimination of TruPS from large BHC tier 1 capital, as mandated by the Collins Amendment and recent agreements by the Basel Committee on Banking Supervision, is expected to help move the U.S. banking industry toward a stronger capital foundation.

This issue of ***Supervisory Insights*** also sheds light on how insured institutions are responding to the recent period of economic and competitive challenges. Data collected and summarized in "Insights from the FDIC's Credit and Consumer Products/Services Survey" show that institutions are implementing a variety of operational changes, including tightening underwriting standards and making use of third-party providers to offer new and innovative products. Ongoing analysis of the Survey data will help the FDIC understand how effectively bank safety-and-soundness and compliance risk management systems are keeping pace with these changes.

In addition, this issue focuses on the operations of farm banks, a critical component of the U.S. banking industry. Although the agricultural sector remains healthy, the industry is cyclical and subject to shocks from a variety of sources, including environmental pressures, market volatility, changes in interest rates, and the potential for declining farmland values. "Managing Agricultural Credit Concentrations" highlights best practices relating to agricultural lending and effective management of agricultural credit concentrations that will help farm banks manage the inherent uncertainties in this industry.

And finally, in recent years, Wall Street firms and financial advisors have stepped up efforts to interest consumers and investors in Senior Life Settlements. "Senior Life Settlements: A Cautionary Tale" explains how the market for these investment options has developed and discusses the significant risks associated with these transactions to financial institutions, investors, and consumers, including the potential for fraud.

We hope you read all of the articles in this issue and find the information relevant and useful, and we look forward to your feedback. Please e-mail your comments and suggestions for topics for future issues of ***Supervisory Insights*** to **SupervisoryJournal@fdic.gov**.

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