FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC PROPOSES RESTRICTIONS ON S&Ls CONVERTING TO SAVINGS BANKS

The FDIC Board of Directors today issued for public comment a proposal that would require savings and loan associations that convert to savings banks to continue operating under their existing restrictions on high-risk investments and other activities.

Under the proposal, an S&L that converts to a savings bank still would be subject to restrictions and notice requirements imposed by Congress in 1989 to help safeguard the new Savings Association Insurance Fund (SAIF). Those restrictions on SAIF-insured S&Ls include a prohibition on junk bond investments, a ban on loans to affiliates engaging in certain high-risk activities and a limit on the size of loans that can be made to one borrower. The law also requires prior notice to the FDIC before establishing subsidiaries or conducting a new activity in an existing subsidiary.

The proposal was issued because a growing number of states have enacted, or are considering enacting, legislation allowing so-called "charter flips" for S&Ls. Federal regulators are concerned that these S&Ls, when converted to state-chartered, SAIF-insured savings banks, could be permitted under state law to exercise powers and make high-risk investments that were authorized by states in the past and contributed to the S&L crisis.

FDIC Chairman L. William Seidman said: "One of the many lessons we've learned from the savings and loan crisis is that institutions that use federally-insured deposits to purchase junk bonds, invest in speculative

-morereal estate projects and make excessive loans to one borrower can bring about costly losses for the insurance fund. We believe that changing an institution's charter from an S&L to a savings bank doesn't change the need for the restrictions imposed by Congress."

Mr. Seidman added: "We believe our proposal, which essentially would maintain the status quo, is firm but fair."

The FDIC proposal does not apply to savings banks that have been supervised by the FDIC and were not previously S&Ls.

Comments on the proposal will be accepted for 30 days after it is published in the Federal Register.

In a related development, the agency said the staff also is considering whether to recommend extending similar restrictions in this proposal to other FDIC-insured institutions.

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