



NEWS RELEASE

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PR-225-90 (11-30-90)

SEIDMAN URGES BANKERS' INVOLVEMENT IN BOLSTERING DEPOSIT INSURANCE FUND

Federal Deposit Insurance Corporation Chairman L. William Seidman today urged the banking industry to help develop a plan to recapitalize the Bank Insurance Fund (BIF) before an economic downturn further weakens the fund.

In a speech to the Association of Bank Holding Companies, Mr. Seidman said a 1989 law requires the fund to have \$1.25 in reserves for every \$100 of insured deposits but currently the BIF is functioning with less than half those required reserves. Citing testimony earlier this week from Federal Reserve Board Chairman Alan Greenspan that the Persian Gulf crisis could further weaken the economy, the FDIC Chairman said an economic downturn would "not bode well for our bank fund reserves."

Mr. Seidman said it would be "prudent" for bankers to consider the question of how to recapitalize the fund "if it is required that we do so." He stressed: "The fund is solvent now and we believe we can meet our obligations as we see them. But it will likely be a different story if we do, in fact, have a prolonged economic slow-down. As the Boy Scout motto says, 'Be Prepared!'"

The FDIC and the Treasury Department are studying various options for bolstering the fund, including raising the premiums banks pay for deposit insurance coverage, imposing a one-time assessment on all insured banks and requiring institutions to purchase preferred stock from the FDIC. Mr. Seidman told the banking executives "time is of the essence" for the industry to get involved in the dialogue over these and other options because the Treasury Department is expected to decide on a course of action in the next several weeks.

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In his appeal to bankers to take an active part in the solution to the fund's problems, Mr. Seidman said: "I'm sure we all agree that the responsibility for the fund should fall to the banks and not to the taxpayers."

At year-end 1989, the BIF insurance fund had \$13.2 billion. After the first six months of 1990, the fund was down to about \$11.2 billion. Chairman Seidman said today the BIF fund could lose more than \$3 billion during the entire calendar year, with the actual size of the loss depending on the performance of the economy.

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