NEWS RELEASE

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CROSS GUARANTEE STRUCTURE PROPOSED BY PRESIDENT IN S&L LEGISLATION WOULD REDUCE FDIC COSTS IN FAILED BANKS

Federal Deposit Insurance Corporation Chairman L. William Seidman today observed that the President's proposed "cross-guarantee" structure would help the FDIC deal with bank insolvencies by minimizing the FDIC's costs and expediting the resolution of banking problems. The need for this structure is well illustrated by the difficulties in dealing with the problems at MCorp, Dallas, Texas.

"The President's "cross-guarantees" proposal is one of many sound provisions in the President's legislation. The President and Secretary Brady deserve our support in their effort to obtain speedy Congressional action on this legislation," Mr. Seidman noted.

In his remarks to the Association of Bank Holding Companies, Mr. Seidman explained how the "cross-guarantees" would work: "All depository institutions that receive deposit insurance will have to guarantee the insurer against costs resulting from the failure of an affiliated bank. In other words, in multi-bank bank holding companies, losses to the insurance fund caused by one bank subsidiary must be underwritten by all subsidiaries."

"In blunt terms," he commented, "cross-guarantees would mean stronger banks would no longer be free to walk away from their failing affiliates, leaving the clean up costs to the FDIC as just happened with MCorp."

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Mr. Seidman observed that, "Well run banking organizations should support this structure because it helps them avoid paying for the bad banks their competitors leave for the FDIC." Mr. Seidman pointed out: "When the FDIC can't send the bill to the holding company responsible for the insurance fund's losses, all banks may be forced to repay the FDIC through higher FDIC insurance premiums."

"The problems at MCorp could have been made less costly to the FDIC if the cross-guarantee structure was in place," Mr. Seidman concluded. He explained that, "All of MCorp's bank resources were not available to support the FDIC's losses in MCorp's insolvent bank subsidiaries. We couldn't treat MCorp's banks as a single operating unit, or sell all its banks as a single franchise even though that is the way it was operated."

Mr. Seidman noted that some of the 20 MCorp bank subsidiaries closed this week were not insolvent when assistance discussion were initiated, and many remained technically solvent until the two lead banks in Dallas and Houston were closed. These lead banks relied heavily on funds obtained from other banks within the system. Once closed, the interbank borrowing exposed these "book solvent" MBanks to losses that produced their insolvency.

Mr. Seidman said he is pleased the closing of the 20 MBanks resulted in minimal disruption. "Depositor funds were protected, and now we have an attractive bridge bank in an improving market. While the franchise is smaller than it once was, there is no longer an uncertain future for customers. Potential buyers already are putting their proposals together."

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