FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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SEIDMAN URGES CONGRESS TO GRANT NEW TOOLS TO FDIC AND REFINANCE FSLIC

Federal Deposit Insurance Corporation Chairman L. William Seidman today predicted a sizable increase in the number of bank failures in 1987 and asked the Senate Banking Committee to provide the FDIC the tools the agency needs to deal with current and future problems in the banking system.

In testimony before the Banking Committee, Chairman Seidman said the failure rate over the short term will increase in certain areas of the country, and he urged Congress to "give the FDIC adequate tools so failures in these hot spots can be handled in a cost effective manner." The FDIC in 1986 handled a record-level 138 bank failures and granted assistance to seven other banks to avert their failure.

The FDIC Chairman also urged the Committee to make recapitalization of the Federal Savings and Loan Insurance Corporation its highest legislative priority.

"Because of limited resources, the FSLIC has not been able to resolve problems within the savings and loan industry. This situation cannot be allowed to continue without impairing confidence in the entire financial system," Mr. Seidman said.

The FDIC Chairman said the FDIC is experiencing escalating costs in coping with more and larger bank failures, in part because the pool of qualified bidders is shrinking in states where the failure rate is highest. "This is forcing us to pay off depositors in more cases. Even when we are able to arrange an acquisition, the premium we obtain is smaller than in the past," Mr. Seidman said.

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Mr. Seidman said the FDIC seeks restoration of its authority to arrange emergency interstate acquisitions for failed banks, and he suggested this emergency tool be modified so the FDIC could deal with any bank or holding company, regardless of size. Mr. Seidman said the FDIC also needs so-called "bridge bank" authority. Both measures are intended to promote successful acquisitions and thus reduce the FDIC's costs and avoid unnecessary disruption or inconvenience to the customers of the institutions involved.

The bridge bank option, Mr. Seidman said, would be valuable in situations, particularly those involving large institutions, where more time is needed to arrange a satisfactory acquisition. In such cases, the FDIC would operate the institution as a full-service bank on a transition basis with the objective of returning the bank to the private sector in a prompt and orderly manner. Bridge banks, said Mr. Seidman, "could be an invaluable aid in minimizing economic disruption and reducing the FDIC's costs."

In his testimony, Mr. Seidman also supported giving banks new powers to enable them to recapture business lost to nonbanking competitors in recent years. He suggested Congress give banks authority to offer customers a range of financial and financially related services. In addition, Mr. Seidman endorsed efforts to ensure that bank deposits are made available within reasonable timeframes. "We support disclosure of funds availability policies to customers, but we would not suggest enacting precise funds availability schedules," he said.

Mr. Seidman also reiterated the FDIC's request that Congress confirm that the FDIC and the Office of the Comptroller of the Currency are exempt from budget apportionment by the Office of Management and Budget.

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