FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-100-87 (5-21-87)

FDIC CHAIRMAN TESTIFIES ON CONDITION OF BANKING INDUSTRY

Competition and deregulation are making the banking industry more efficient but the industry also is becoming less profitable than in previous years, according to Federal Deposit Insurance Corporation Chairman L. William Seidman.

"Aggregate earnings of small banks, those under $100 million, are way down," and "over 80 percent of the banks that lost money (during 1986) were located west of the Mississippi River," Mr. Seidman said. He noted that states in the Midwest and Southwest tend to have restrictive branching laws which limit diversification and risk reduction opportunities for banks.

During his remarks, delivered today to the Senate Banking Committee, Mr. Seidman also said the industry's net charge-offs and nonperforming assets are increasing, even in areas of the country where the economy is robust.

The upward trend in charge-offs and nonperforming assets reflects the fact that the quality of the industry's investment portfolio is declining. Mr. Seidman said the decline in the quality of the industry's portfolio is producing larger losses for the FDIC when it disposes of assets acquired from failed banks.

"Our loss rate on assets received from banks that failed during 1985 and the first half of 1986 showed an increase of over 70 percent since 1980 and now we are losing about 25 percent on every dollar," Mr. Seidman said. He attributed the decline in asset quality to a variety of factors, including the explosive growth in household and business debt and restrictive banking laws

-more-which prevent banks from maintaining market share, thus encouraging banks "to go further out on the risk curve to maintain market share and profit margins."

The FDIC insurance fund is sound and viable, despite the higher losses, but "we will be fortunate to keep reserves at the current level of $18.2 billion at the end of 1987," Mr. Seidman said.

The insurance fund's reserves stood at $1.12 per $100 of insured deposits at the end of 1986, down from $1.20 a year earlier. "Assuming a normal growth rate in insured deposits, about 200 bank failures this year and, thus, no net increase in the fund, the ratio will drop to about 1 percent by year end," Mr. Seidman said.

Mr. Seidman commended the Senate Banking Committee for recognizing the need to keep the FDIC free of Office of Management and Budget expenditure constraints. Expenditure flexibility is the "most important aid to our ability to manage the fund." he said.

Mr. Seidman also urged the Banking Committee to move ahead on changes to laws which will improve the banking industry's ability to compete in the marketplace.

"We know that the issues are difficult and the turf to be protected is lucrative," he said. However, Mr. Seidman pointed out that "the archaic system of laws under which the banking industry operates has created an inefficient system that is contributing to some of the disturbing trends in the banking industry that are being discussed here today."

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