FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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BANK FAILURE RATE EXACERBATED
BY SOME STATE STATUTES, SEIDMAN SAYS

While the record level of bank failures in the U.S. is due largely to stress in certain areas and in certain sectors of the economy, the problem is exacerbated by some states' banking laws, the Chairman of the Federal Deposit Insurance Corporation said today.

FDIC Chairman L. William Seidman, in a speech to the National Soft Drink Association, said the high numbers of failures in some states constitute "a self-inflicted wound." Mr. Seidman said that statutes restricting branching and competition have created weaker institutions that failed under the strain of high debt levels and lack of diversification.

The FDIC head noted that such unit banking statutes are prevalent west of the Mississippi, where 90 percent of all recent failures and 85 percent of all banks on the FDIC's problem list are located.

On the national level, Mr. Seidman contended that the time is right for an overhaul of the financial services system. "While the banking system and economic and competitive factors are changing with unprecedented speed," he remarked, "the response to date has been a hodgepodge of ingenious private sector initiatives that test the limits of existing legal frameworks."

The "archaic" system of laws under which the banking system operates has created an inefficient structure that contributes to disturbing trends in the industry, Mr. Seidman said. He said that forces for change are gathering force, and "at long last a long-range financial services restructuring has a good chance to be undertaken--and soon."

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Chairman Seidman noted that Alan Greenspan, Chairman-designate of the Federal Reserve Board, is a "long-time student of the structural problems of the banking industry, and should be a great help in this effort."

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