



NEWS RELEASE

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INTERAGENCY COOPERATION CONTROLS FRAUD AND INSIDER ABUSE, BUT MORE ACTION IS NEEDED, FDIC CHAIRMAN SAYS

"Current levels of bank fraud, while serious and costly, do not jeopardize the banking system," FDIC Chairman L. William Seidman stated today in testimony before the House Subcommittee on Commerce, Consumer, and Monetary Affairs.

Examiners found some element of fraud or insider abuse in 98 of the 354 banks that failed during the 30-month period that ended June 30, Mr. Seidman reported. Those 98 banks had assets of \$2.7 billion and their failure is expected to cost the FDIC an estimated \$676 million. About one-third of the FDIC's estimated cost in these cases is due to fraud and abuse. While interagency cooperation is helping contain such activities, additional action is needed, Mr. Seidman stated.

"We are seeing evidence of insider abuse and fraud in as many as one third of the banks that fail. The autopsies the FDIC conducts in the wake of bank failures also show that outright criminal activity is a factor in nearly 15 percent of recent failures," Mr. Seidman said.

"Our review of case files on 258 banks that failed during 1986 and the first six months of 1987 indicates that independent audits were performed about half as frequently in institutions that failed when compared with operating banks," he said.

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Mr. Seidman also told the subcommittee that bank regulators are near agreement on requiring annual audits for all banks over a certain asset size threshold.

"We are considering a threshold in the range of \$100 to \$150 million in assets," Mr. Seidman said. "Banks of this size should realize benefits from an independent review of their operations that outweigh the cost of an outside professional audit. Obviously, we are concerned that an independent opinion audit might not be affordable for smaller institutions. We are considering options for them and I have asked the American Institute of Certified Public Accountants to help develop a program designed for a cost-effective examination of small banks."

Additionally, agencies' ability to address instances of insider abuse, misconduct and fraud at financial institutions would be greatly improved by amending the enforcement statutes, Mr. Seidman said. Some of the amendments proposed recently by the Bank Fraud Interagency Working Group would remove certain constraints on intergovernmental exchanges of information imposed by the Right to Financial Privacy Act (RFPA). Enactment of those amendments "would enhance greatly our cooperative efforts with Justice in ferreting out and prosecuting fraud and abuse," he said.

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