FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-232-87 (12-15-87)

FDIC WITHDRAWS PROPOSED RESTRICTIONS ON BANKS' CONDUCT OF REAL ESTATE DEVELOPMENT ACTIVITY

The Board of Directors of the Federal Deposit Insurance Corporation today withdrew from consideration a proposed regulation governing banks' involvement in real estate development and life insurance underwriting.

Among other features, the proposed rule would have restricted an insured bank's direct conduct of real estate development activities to no more than 50 percent of the bank's primary capital and its investment in any one real estate development project to 10 percent of the bank's capital. Further activities, if permitted by state law, would have had to be conducted through a bona fide subsidiary.

The FDIC's proposal was first issued for public consideration in November 1984 and was subsequently amended in June 1985. FDIC Chairman L. William Seidman noted: "Given the amount of time that has passed and the lack of substantial evidence regarding the degree of risk to the insurance fund, it makes sense to reevaluate whether a broad-based regulation for real estate investment is necessary."

Chairman Seidman commented: "Where problems relating to real estate development activity in banks have been identified, those problems usually involve dealings with bank insiders." The FDIC Board instructed the agency's supervisory staff to report back in 45 days on what specific steps the agency might take to control the potential for such insider abuse. The staff also was instructed to provide the Board with an updated analysis of the types and level of potential risks in real estate activities, as well as recommendations regarding the need for expanded regulations.

-more-

The FDIC staff also reported to the Board that efforts to work out a common regulatory approach to real estate investment activities with the Federal Reserve Board had been unsuccessful. The FDIC Board was advised that the Federal Reserve is expected in the near future to adopt a real estate investment regulation. The FDIC staff will weigh the impact and effectiveness of the Federal Reserve Board's anticipated regulation as part of its effort.

###