FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-23-88 (2-1-88)

FDIC FUND, LIQUIDATION PORTFOLIO HOLD STEADY DESPITE RECORD BANK FAILURES

Preliminary financial reports indicate the Federal Deposit Insurance Corporation achieved a modest surplus of $50 million in 1987, according to FDIC Chairman L. William Seidman.

Furthermore, the FDIC's inventory of managed assets acquired from failed banks stood at about $11 billion at the end of 1987, about the same level as a year earlier despite another year of record bank failures, according to Mr. Seidman.

"The number of failed banks during 1987 was one-third higher than the year before, but new approaches for dealing with failures and aggresive management of the liquidation portfolio have enabled us to keep our cash type reserves at about $16 billion," Mr. Seidman told the Association of Reserve City Bankers.

During 1987, the FDIC handled 184 bank failures and provided financial assistance to 19 banks in danger of failure, up from 138 failures and 7 assisted banks during 1986. Roughly $3.3 billion in insurance premiums and interest income was needed to deal with the failures and assistance transactions plus operating expenses. However, Mr. Seidman said he expects the FDIC insurance fund will be at the 1986 year-end level of $18.2 billion in net worth.

Mr. Seidman noted the most significant single charge against 1987 income was the addition of almost $1 billion in reserves for possible losses relating to the FDIC's assistance agreement with First City Bancorporation of Texas, Inc.

- more -

"This was the second largest assistance transaction in the FDIC's history. Even though it won't be completed until later this year, our reserves for possible losses on the deal will be carried on 1987's books," the FDIC Chairman said.

Mr. Seidman said the failure rate during 1988 "is expected to remain steady," although the banking system overall may show some modest improvement. "There are just under 1,600 institutions on the problem bank list, and that number is holding steady," he explained. "We are heartened that the farm economy, and therefore farm banks, appear to be on the comeback trail. Unfortunately, problems in the oil patch continue."

The FDIC Chairman said bank failures during 1988 will be manageable, but he urged the industry leaders to support new legislation that strikes a balance between needed deregulation and effective supervision.

"Our goals for now should be to promote the safety and soundness of the banking system while at the same time removing needless regulations that stand in the way of a financial marketplace that is efficient and rewarding to all participants--both providers and consumers alike," he said.

Mr. Seidman noted the leading bill in the Senate--the Proxmire-Garn bill--and the D'Amato-Cranston bill both bring more competitive equality to the financial services industry. However, he urged the bankers to pay close attention to legislative deliberations during the year ahead.

Mr. Seidman commented: "We believe banks can support the Proxmire-Garn bill as it is drafted now, but bankers should watch the compromises proposed and ask for each restrictive change 'Is the price worth the ride?'"

###