FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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DIVIDEND PAYMENTS WILL BE CURBED WHEN FDIC ASSISTS HOLDING COMPANY BANKS

The Federal Deposit Insurance Corporation intends to curb dividend payments to parent holding companies and certain interbank transactions whenever financial assistance is provided to prevent the failure of banks that are part of a holding company system, according to FDIC Chairman L. William Seidman.

In remarks delivered at the Morin Center in Boston, Mr. Seidman noted the FDIC was created to protect insured bank depositors, not the creditors and shareholders of bank holding companies. Nonetheless, he pointed out that "the FDIC has on occasion extended the federal safety net to bank holding company creditors and even shareholders as the lowest cost, or most practical, way to handle individual situations." Holding company creditors and shareholders will no longer be protected by the FDIC, Mr. Seidman said.

"The Board of the FDIC recently has stated that its policy today is that the safety net does not extend to holding companies," Mr. Seidman said. This approach, he added, will remove the double standard regulators have often applied in the supervision of banks owned by individuals and those held by large holding companies.

"If a bank is owned by an individual, and it is capital deficient, regulators forbade funds from moving out of the banks by way of dividends or other means. This firewall has not always been enforced where bank holding companies are involved. The firewall collapses when a bank is

-moreshort on capital and profits, but its holding company continues to take dividends from the bank," Mr. Seidman commented. "Current problems of the larger holding companies in Texas illustrate the need for restricting the federal safety net to banks."

The recently announced interim assistance agreement with the subsidiary banks of First RepublicBank Corporation reflects the FDIC Board's position that holding company creditors and shareholders should not benefit from the FDIC safety net, Mr. Seidman said.

"While the FDIC guaranteed that all depositors and other general creditors of First Republic's banks will be fully protected, the FDIC made it clear that these guarantees DO NOT extend to the holding company creditors or shareholders. Since our funding was protected by the guarantee of all the banks, the debt held by creditors of the holding company will not be protected by the federal security net. Moreover, our bridge bank authority makes this limitation of the FDIC's guarantee easily enforceable," Mr. Seidman observed.

The long-term solution for banks in the First Republic system should not result in the extension of the safety net to the holding company. "We must leave the holding company behind," Mr. Seidman said.

The FDIC's position in the First Republic case "tests the viability of the firewall concept, and the prudence of expanded powers that concept could facilitate," Mr. Seidman commented. "If holding companies are to move into new services, then we must insure that the federal safety net does not extend to those new non-banking services. If the safety net is not limited to the banks, the level playing field is again askew."

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