FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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DESPITE FAILURES AND LOSSES, FDIC FUND REMAINS STRONG AND STABLE, SEIDMAN REPORTS

Despite a record number of failures and assistance transactions, the financial condition of the banking system and the Federal Deposit Insurance Corporation remain strong and stable, FDIC Chairman L. William Seidman reported today to the Senate Banking Committee.

In his report on the condition of the FDIC and the banking system, Mr. Seidman noted that the agency's insurance fund at year-end stood at $18.3 billion, up modestly over a year earlier. "Based on current estimates of loss in 1988--including the loss on First RepublicBank Corporation of Dallas--we may experience some decrease in the net worth of the fund in 1988," Chairman Seidman commented.

Mr. Seidman noted that if there were a decline in the insurance fund, it would be the first time the cost of handling assisted and failed banks resulted in a loss to the fund. "Despite this," he said, "we believe the FDIC fund is sufficient to deal with any problems we can foresee in the banking system."

Addressing other issues he considers "most significant" to banking, Mr. Seidman said:

- Based on market capitalization, the world's 50 largest financial institutions--insurance, securities and banking--at year-end 1986 included only 11 U.S. companies, and only two of those were primarily banking organizations. Japan, he noted, had 27 in the top 50. "It seems clear

-morethat the stock markets do not believe U.S. banks will be among the future's leading global financial institutions under current conditions," Mr. Seidman commented.

- Significant increases in bad debt reserves by most major U.S. banks in 1987 place the banking system in a much improved position in terms of its exposure to LDC debt. Mr. Seidman noted that money-center banks have reserves against about 25-30 percent of their non-trade LDC exposure, while large regional banks now have reserves covering about half of their non-trade LDC debt. "Based on the use of 25 percent of export income to service debt," Chairman Seidman said, "the level of reserving taken as a whole appears reasonable for present conditions."

- The main problems in U.S. banking continue to be concentrated in areas having severe economic problems. Mr. Seidman pointed out that banks holding roughly 50 percent of the banking deposits in Alaska, Oklahoma and Texas have or are expected to require financial support, either from the FDIC or from other sources. "Such widespread weakness in those states will continue to be a significant burden for the FDIC," he said, "at least for the short run."

- Recent transactions involving First City Bancorporation and First RepublicBank Corporation demonstrate the FDIC's resolve to maintain stability in banking without extending the federal safety net to bank holding companies. Mr. Seidman noted that the FDIC has submitted proposed legislation that would allow regulators to require the emergency consolidation of a failing bank with other banks in a multi-bank holding company. He also pointed out that the investment community now demands an interest premium over bank CDs to provide funding to holding companies. He noted that not extending the safety net is important if holding companies are permitted into new non-banking activities.

- The problems of the thrift industry and the FSLIC are affecting the banking industry by increasing the cost of funds and forcing banks to compete in an unfair environment against insolvent institutions. Because this situation has a destabilizing effect on banking, resolving FSLIC's problems is important to the banking system and the entire financial system, Mr. Seidman said. He noted that the FDIC has undertaken a complete review of the role of deposit insurance, to be completed by the end of 1988.

Chairman Seidman concluded:

"Although sound, the banking industry is experiencing a stressful period of evolution. There are problems and challenges that must be faced by banks, bankers, regulators and Congress. These problems are not easily resolved, but can be managed. We look forward to cooperating with the Congress in whatever way possible to insure that the banking industry remains safe and sound, the backbone of the U.S. economic system and a competitor in world markets."

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