



NEWS RELEASE

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CHAIRMAN SEIDMAN REFUTES MISINFORMATION ON STRENGTH OF FDIC FUND

Noting that some commentators are making inaccurate comparisons between the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation, FDIC Chairman L. William Seidman today responded to a recent article that questions the FDIC's viability.

In remarks to the Citicorp Consumer Banking Group in Washington, D.C., Chairman Seidman said an article by the Director of Research of the U.S. League of Savings Institutions "is way off base" in analyzing the costs of handling banking problems in Texas and the strength of the FDIC fund.

Chairman Seidman noted that the FDIC received a clean GAO audit for 1987, which concluded the fund had a net worth of \$18.3 billion, a modest increase of roughly \$50 million over the previous year. "As I have noted earlier, based on current estimates of loss in 1988, we may experience a modest loss in the fund in 1988," said Mr. Seidman.

"The League article, on the other hand, states that the FDIC will lose \$7.4 billion to \$14.8 billion on First Republic, MCorp, First City, Texas American Bancshares, National Bancshares Corp. and BancTexas. That loss estimate was reached by applying inaccurate cost percentages to wrong asset totals. This is an exercise in playing with the numbers that is affirmatively misleading.

"This analysis ignores several important points. First of all, First City and BancTexas were dealt with last year, and the cost already has been charged against income in 1987. And we still made money that year.

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"As for the FDIC's cost, First City and BancTexas cost the FDIC fund less than half the League's estimate."

Chairman Seidman went on to note that there are signs of modest improvement in the banking industry in the southwest, and that the FDIC's problem bank list has dropped below 1,500 for the first time since January 1987. He said it is likely that the worst banking problems in the southwest will be behind us after 1988.

Mr. Seidman noted that banks in Texas earned .53 percent on assets in 1987, before loan loss provisions and taxes. That means, he noted, that in the aggregate they earned enough to cover interest expenses and operating costs, which gives them the ability to last until the real estate market improves. By comparison, he pointed out, thrifts in Texas lost 3.1 percent on operations. In addition, Mr. Seidman said even the unprofitable Texas banks earned enough to cover their operating expenses.

Concluded Mr. Seidman: "The bottom line is that contrary to inaccurate estimates, the FDIC has the resources necessary to handle all the problems it presently can foresee."

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