FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC INSURANCE FUND EXPECTED TO GROW DESPITE ESTIMATED RECORD BANK FAILURES

The banking industry's deposit insurance fund is expected to end the year with an operating surplus of approximately $1 billion, demonstrating its ability to withstand record numbers of bank failures, according to Federal Deposit Insurance Corporation Chairman L. William Seidman.

In remarks delivered today to the U.S. League of Savings Institutions, Mr. Seidman said between 140 and 160 banks are expected to fail or require financial assistance from the FDIC by the end of 1986, up from last year's record 120 failures and assistance transactions. Based on year-to-date results, the size of these insolvent banks will average about $40 million and the FDIC will reserve about $1 billion on failures and assistance agreements.

Although the FDIC will add about $3 billion in troubled loans acquired from failed banks to its liquidation portfolio, Mr. Seidman predicted the insurance fund will continue to grow, largely due to interest earned on the FDIC's investments. He said the FDIC's financial performance "could be improved if we have an unusual gain on the sale of our interest in Continental Illinois Corporation."

At the beginning of 1986 the FDIC estimated about 120 banks would fail by the end of the year. Mr. Seidman said the mid-year adjustment reflects the continuing increase in the number of institutions being added to the FDIC's problem bank list and the actual number of failures so far this year.

The increase in the number of banks on the problem list reflects asset problems confronting oil and gas lenders, continuing weakness in the agricultural sector and softness in the commercial real estate market. While potential failures among agricultural lenders were included in the FDIC's estimate at the

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beginning of 1986, the sharp decline in oil prices and related impacts on the real estate market were not fully anticipated.

Bank failures and assistance transactions reached 55 by June 9, surpassing the 43 failures which occurred during the same period in 1985. Slightly more than 1300 banks are on the FDIC's problem bank list today, up from 1140 at the end of 1985.

The proportion of problem banks that fail can be minimized by strong supervision, Mr. Seidman said. The FDIC is trying to expand its examination force to keep up with the growing number of problem institutions but Mr. Seidman said he is concerned efforts to hire and train new examiners may be trimmed if budget cuts are required to comply with the Gramm-Rudman-Hollings Act or the Anti-Deficiency Act.

Mr. Seidman said a reduction in bank failures or assistance transactions during 1987 is possible but will be difficult to achieve without a strong supervisory program. "This increase in problem and failing banks has put a major strain on our field examiners, a force which, because of self-imposed restrictions, was allowed to shrink," he commented. He noted the FDIC voluntarily reduced its 1986 budget by $8.5 million to satisfy Gramm-Rudman without cutting into bank supervision. "We are most concerned," he commented "our capabilities to carry out our supervisory role will be affected by future budget cuts."

Budget cuts of 10 percent or more would make reductions in the FDIC's examination force unavoidable. "For every 100 examiner reduction, we would lose the capability to conduct about 225 examinations a year. Examiner cutbacks of 15 percent would eliminate over 600 examinations in 1987," Mr. Seidman said.

"We firmly believe stretching out examination intervals any further in this banking environment would be counterproductive," Mr. Seidman added. "The net effect," he said, "will be higher insurance costs and less stability in the financial system."

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