



NEWS RELEASE

FOR IMMEDIATE RELEASE

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FDIC APPROVES DEPOSIT ASSUMPTION OF FARMERS STATE BANK OF CLARISSA, CLARISSA, MINNESOTA

The Board of Directors of the Federal Deposit Insurance Corporation today approved the assumption of the deposit liabilities of Farmers State Bank of Clarissa, Clarissa, Minnesota, by First State Bank, Rush City, Minnesota.

The failed bank's only office will reopen on Monday, July 14, 1986, as a branch of First State Bank and its depositors automatically will become depositors of the assuming bank, subject to approval by the appropriate court.

Farmers State Bank of Clarissa, which had total assets of \$16.4 million, was closed on Friday, July 11, 1986, by Michael A. Hatch, Minnesota Commissioner of Commerce, and the FDIC was named receiver. Mr. Hatch said: "The condition of Farmers State Bank of Clarissa deteriorated due to an unusually high percentage of poor quality loans and assets. Losses in loans and other assets impaired the bank's capital and reserves, resulting in its inability to continue sound operations. The continued weakness in the farm economy contributed to the failure of the bank."

First State Bank will assume about \$15.9 million in 4,400 deposit accounts and has agreed to pay the FDIC a purchase premium of \$45,019.35. It also will purchase certain of the failed bank's loans and other assets for \$8.1 million. The FDIC will retain assets of the failed bank with a book value of about \$8.3 million.

In lieu of making a cash advance to the assuming bank, the FDIC will provide a note receivable of about \$7.8 million, payable in one year and bearing an interest rate of 7.5 percent, which is approximately the FDIC's opportunity cost of funds. The assuming bank elected this option instead of

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receiving the customary cash advance and may elect to receive cash payments on the note during the term in increments of \$1 million, thereby making funds immediately available in the community. Recently, some potential bidders have indicated a reluctance to submit bids for failed banks and receive cash because of limited loan demand and an inability to invest at a profitable rate of return.

The Board of Directors approved the deposit assumption under its authority to do so whenever it determines that such a transaction will reduce the potential loss to the FDIC. The Board made such a finding in this case because of the premium paid by First State Bank.

The FDIC will recover a portion of its outlay through the liquidation of assets not transferred to the assuming bank. In this respect, the FDIC notes that its claim will have priority over the claims of nondepositor creditors and shareholders of the closed bank.

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