



## NEWS RELEASE

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### FDIC CHAIRMAN OUTLINES OPTIONS ON ASSISTANCE TO FAILING BANKS

The Federal Deposit Insurance Corporation is reviewing its programs designed to assist failing banks through open bank assistance, FDIC Chairman L. William Seidman today told the Association of Bank Holding Companies meeting in Washington.

The FDIC Chairman listed three potential advantages of open bank assistance transactions:

- . They can provide substantial savings to the insurance fund when compared with the cost of closing a bank;
- . They provide a mechanism for keeping loans and other assets within the banking system since all borrowers would be dealing with bankers instead of liquidators; and
- . They can minimize the disruption to the local community which may result from bank failures.

Mr. Seidman stated: "An essential element of gaining approval will be that the assistance does not bring undue benefits to shareholders, management or creditors of the failed institution, and that new capital is supplied by private investors."

"There is nothing inherently wrong with assisting a bank," Mr. Seidman said, "but the advantages have to be weighed against the substantial disadvantages of the FDIC's short term (hopefully) involvement in the private sector through its ownership of warrants, preferred stock or loans in the rescued institution."

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Up until 1982, the FDIC was authorized to assist banks in danger of failing only when the continued operation of the bank was determined to be essential to providing adequate banking service to the community. To that point, the option was used only five times. The Garn-St Germain Act of 1982 expanded the FDIC's authority under Section 13(c) of the FDI Act to provide such aid if the cost would be less than that of closing and liquidating the bank. Since 1982, the FDIC has approved assistance to three banks, two in the last six months. In each case the decision was based on reducing costs to the insurance fund.

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