FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION
NEWS RELEASE

FOR IMMEDIATE RELEASE PR-189-86 (12-2-86)

FDIC REVISES POLICY ON ASSISTANCE TO FAILING BANKS

The Board of Directors of the Federal Deposit Insurance Corporation today revised its guidelines for providing financial assistance to prevent the closing of insured financial institutions.

The revised policy is intended to provide guidance to FDIC-insured banks in danger of failing concerning the general conditions and terms the FDIC believes any request for assistance should encompass.

The policy covers a broad range of guidelines, the most important of which is that the FDIC's cost in providing assistance clearly must be less than if it took alternative action. Also, an assistance proposal must provide for sufficient capitalization accompanied by capital infusions from non-FDIC sources. Moreover, the financial effect of the assistance upon shareholders and subordinated debt holders of the bank or of the bank's holding company must approximate the effect on these parties had the assisted bank failed.

The policy also covers renegotiation of management contracts, avoidance of an equity position for the FDIC in a bank, the FDIC's preference not to acquire or service the assets of assisted banks, responsibility for pursuing legal claims against bonding and insurance companies and others, and fee arrangements.

The new guidelines cover both commercial banks and thrifts that are FDIC insured. The policy replaces both the previous policy, which was issued in 1983, and the Voluntary Assisted Merger Program that had been used for savings banks.

In 1983, the FDIC issued a policy statement to amplify its position regarding assistance to failing banks. Since that time the number, size and

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complexity of bank failures have increased dramatically. In recent months, requests for assistance also have increased significantly.

In response to these changing circumstances, a revision to the guidelines regarding open bank assistance is appropriate. The FDIC believes that more options to provide assistance to an operating bank should be considered in instances where it is cost effective and otherwise meets FDIC criteria. Further revisions to the policy may be necessary in the future as circumstances continue to evolve.

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