



NEWS RELEASE

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SEIDMAN SEEKS INDUSTRY INPUT ON DEPOSIT INSURANCE REFORM ISSUES

The head of the Federal Deposit Insurance Corporation today invited the banking industry to join with the industry's regulators in resolving obstacles to deposit insurance reform.

FDIC Chairman L. William Seidman in an address before the Colorado Bankers Association said: "No one has a bigger stake than bankers in assuring that deposit insurance operates fairly and equitably and promotes stability. It follows that the industry should be a co-participant in shaping the discussion on insurance reform as Congress begins a new round of hearings on this subject."

Seidman noted that the banking industry generally has expressed philosophical agreement with the need to improve discipline through deposit insurance reform. "This support for changes to promote fairness and market discipline is encouraging because one of our most pressing needs is to come up with a practical way to handle bank failures in the same way for both large and small institutions," he said. "It is vital that we undertake a joint industry-regulator approach to resolving the technical and substantive problems any market discipline initiatives could create."

Seidman noted that major industry groups and some large banking organizations have endorsed the use of so-called "modified payoffs" as a way to impose greater depositor discipline on the banking system. Such an approach, if routinely used by the FDIC, would mean uninsured depositors in failed institutions of all sizes would face a partial loss of funds, thus encouraging uninsured depositors to keep a close watch on their bank's operations.

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"Modified payoffs might prove to be a useful tool for the FDIC," Seidman said. However, he stressed that serious technical problems must be addressed and resolved before such an approach could be used to handle the failure of a large bank.

Among the considerations that need to be assessed, he said, are the potential impact of modified payoffs on the payments system, domestic and foreign investor demand for certificates of deposit, banks' ability to maintain records reflecting the insured and noninsured status of their depositors, and the effects of a modified payoff of a major institution on other banks.

The FDIC Chairman said his agency stands ready to cooperate with the other financial regulators and with industry groups to determine how modified payoffs could be used to deal with large failing banks.

"If we can come to some concrete conclusions and a unified answer on what needs to be done in this and other areas of deposit insurance reform, we will have done a great deal to facilitate the task of achieving meaningful legislation."

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