



NEWS RELEASE

FOR RELEASE AFTER:
4 PM, MARCH 7, 1986

PR-31-86 (3-7-86)

FDIC BOARD INCREASES ALLOWANCE FOR LOSSES

The Federal Deposit Insurance Corporation Board of Directors voted today to increase the deposit insurance fund's reserve for losses by \$2.3 billion, raising the total reserve allowance to \$4.5 billion.

In commenting on the loss allowances, FDIC Chairman L. William Seidman said: "The banking industry's insurance fund is still expected to show a \$1.4 billion increase for 1985, ending the year with a net worth of \$17.9 billion, up from a restated \$16.5 billion for the year ended December 31, 1984." Seidman noted that the year-end ratio of insurance fund to estimated insured deposits stands at 1.22 percent. The ratio has been maintained within the 1.21 to 1.24 percent range for the past five years.

"Despite a record 120 bank failures and assistance transactions during 1985, the insurance fund has grown, continuing a long-term trend. The FDIC's financial statements will show a solid insurance fund with no known contingencies unreported," Seidman commented.

The \$2.3 billion increase is comprised of the following components:

- . A \$1.3 billion loss allowance relating to the 1984 assistance agreement between the FDIC and Continental Illinois National Bank and Trust Company of Chicago.
- . An increase of approximately \$400 million in loss allowances established for bank failures that occurred prior to 1985.
- . An approximately \$600 million loss allowance for the 120 bank failures and assistance transactions which occurred during 1985.

-more-

In a related action, the FDIC Board also voted today to restate the deposit insurance fund's 1984 financial statements. The reStatement will charge approximately \$700 million of the Continental loan loss allowance to 1984 operations -- the year in which the assistance transaction occurred. About \$600 million of the loss allowance attributable to the Continental transaction is being charged against 1985 operations. The FDIC's estimated losses for Continental reflect all remaining obligations under the assistance plan. The loss reserves do not recognize any potential gains that may be realized through any sale of Continental Illinois Corporation's stock.

Regarding the Board of Directors' decision to restate the 1984 financial statements, Chairman Seidman noted the General Accounting Office took exception to the 1984 financial statements because no provision was made for potential losses related to the Continental assistance transaction

Due to the size of the loss allowances approved today by the FDIC directors, the banking industry will not receive a deposit insurance assessment rebate for 1985.

###