FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC SETS OUT STEPS TO REFORM DEPOSIT INSURANCE SYSTEM

The head of the Federal Deposit Insurance Corporation today urged Congress to enact legislation to correct weaknesses in the deposit insurance system and ensure a strong bank supervisory program in the future.

FDIC Chairman L. William Seidman, in testimony before the Senate Banking Committee, asserted that deposit insurance has worked well -- protecting depositors, maintaining confidence in the banking system and limiting the adverse effects of bank failures on individuals and communities.

"However," said Mr. Seidman, "the increased number of bank failures in recent years has exposed weaknesses in the deposit insurance system and in procedures for handling failures." He identified four specific problems:

-- Depositors in some small failed banks, for which mergers could not be arranged, have suffered losses on deposits in excess of the insurance limit while uninsured depositors in large banks have always been fully covered, resulting in a perception of unfairness.

-- The present system does not provide the FDIC with the tools it needs to handle large bank failures smoothly and efficiently.

-- Current procedures for dealing with bank failures place too many assets in liquidation, cutting off borrowers from banking services and possibly resulting in higher costs to the FDIC.

-- Existing law provides no flexibility to charge higher deposit insurance premiums to banks engaged in high-risk activities and gives *de facto* insurance coverage to some bank creditors at no cost.

Chairman Seidman outlined a set of recommendations designed to result in more frequent mergers of failed banks -- thus minimizing the disparity in

-moretreatment between large and small failed banks -- promote private sector solutions to troubled bank problems, reduce the volume of failed bank assets subject to liquidation by the FDIC, and give the FDIC more time and flexibility to arrange mergers or acquisitions of failing or failed institutions. Specific proposals included:

-- Enact a depositor preference statute under which an acquiring bank could assume only deposit liabilities, with general creditors subordinate to the FDIC in recovering their claims. This would reduce the cost of handling failures and enhance market discipline.

-- Extend and broaden the interstate acquisition provision of the Garn-St Germain Act, which is schedule to expire April 15, to include "failing" as well as failed banks and multi-bank holding companies where a bank representing a significant share of the holding company's assets is in danger of failing.

-- Grant the FDIC conservatorship powers to provide more time to dispose of failing banks and pass more assets to acquiring institutions.

-- Permit the FDIC to own stock in an institution for a limited period to permit it to reposition and sell a large failed bank.

-- Permit implementation of a risk-based deposit insurance formula that would relate banks' insurance costs to the risk they pose to the insurance fund.

-- Enact legislation to ensure a strong, independent bank supervision system to meet the growing challenge of monitoring and controlling risk in a deregulated environment.

Chairman Seidman emphasized that the final proposal is critical if the IC is to be able to do an effective job. "When demands on supervision are increasing," he said, "it is critical that we train and expand a quality staff to examine and supervise banks so that current and potential problems are controlled."

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