FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC CHAIRMAN SEIDMAN URGES EXPANSION OF EMERGENCY INTERSTATE ACQUISITION OF FAILED BANKS

L. William Seidman, Chairman of the Federal Deposit Insurance Corporation, today urged Congress to broaden provisions in the 1982 Garn-St Germain Depository Institutions Act which help the FDIC arrange emergency mergers for insolvent banking institutions.

In testimony presented to a House Banking Subcommittee, Mr. Seidman said the FDIC needs better tools in order to arrange cost-effective mergers for troubled banking institutions. The changes he urged Congress to adopt would help the FDIC arrange interstate bank acquisitions when an in-state purchase of an insolvent bank is not practicable. This broader authority would be used to minimize the community impact of a bank failure and help the FDIC maintain the safety and soundness of the banking system as a whole.

The specific changes Mr. Seidman urged Congress to adopt are:

- Lower the $500 million size threshold which currently limits the eligiblity of insolvent banks for interstate acquisition;
- Permit the acquisition of failing as well as failed banks;
- Extend the scope of the FDIC's interstate acquisition authority to include bank holding company systems as well as individual banks; and
- Permit banks which move into a state by purchasing a failing institution to expand into the three largest metropolitan areas in that state.

Under existing law, when a bank with $500 million or more in total assets is closed, the FDIC may arrange for the purchase of the institution's assets and assumption of its liabilities by an out-of-state bank or holding company.

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Mr. Seidman proposed a reduction to $250 million, saying "reducing the limit would permit us to arrange acquisition transactions that otherwise might not occur."

The FDIC also sought authority to arrange acquisitions when troubled banks are determined to be "in danger of closing." Mr. Seidman noted that "this would increase the potential for finding a private solution with lesser commitment of FDIC funds, while reducing community disruption."

The FDIC also proposed that a holding company have the ability to buy the stock of a failing or failed bank and any of the bank's affiliates. Mr. Seidman said: "The existing law is defective in that it does not provide for the situation where a failing bank is an integral part of a larger banking organization. The failure could result in the dismemberment of existing established systems, with disruptive effects in the local community."

Another FDIC proposal would automatically permit out-of-state acquiring institutions to expand into the three largest standard metropolitan statistical areas in the acquired bank's state. Mr. Seidman said: "This would enhance institutions' incentives to bid on troubled banks and thereby increase the total number of troubled bank purchase and assumption transactions that can be carried out."

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