



NEWS RELEASE

FOR IMMEDIATE RELEASE

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FDIC ANNOUNCES DEPOSIT ASSUMPTION OF WESTERN STATE BANK, DENTON, TEXAS

The Board of Directors of the Federal Deposit Insurance Corporation today announced that the deposit liabilities of Western State Bank, Denton, Texas, have been assumed by Texas Bank of Denton, Denton, Texas, a new state bank. The failed bank's only office will reopen on Monday, September 30, 1985, as Texas Bank of Denton and its depositors automatically will become depositors of the assuming bank, subject to approval by the appropriate court.

Western State Bank was closed on Friday, September 27, 1985, by James L. Sexton, Texas Banking Commissioner, and the FDIC was named receiver. Mr. Sexton said: "A recent state examination revealed extensive deterioration in asset quality, bringing the bank to the brink of insolvency. The subsequent identification of additional asset problems and the failure of available liquidity to meet withdrawal demands in the early afternoon of September 27 occasioned the bank's failure."

Texas Bank of Denton will assume about \$21.4 million in 5,400 deposit accounts, including about \$2.0 million in excess of the federal insurance limit of \$100,000 and \$1.3 million in 13 accounts placed by deposit brokers. Texas Bank of Denton has agreed to pay the FDIC a purchase premium of \$100,000 and also will purchase certain of the failed bank's loans and other assets for \$19.1 million. To facilitate the transaction, the FDIC will advance \$4.2 million to the assuming bank and will retain assets of the failed bank with a book value of about \$5.7 million.

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The Board of Directors approved the deposit assumption under its authority to do so whenever it determines that such a transaction will reduce the potential loss to the FDIC. The Board made such a finding in this case because of the premium paid by Texas Bank of Denton.

The FDIC expects to recover a substantial portion of its outlay through the liquidation of assets not transferred to the assuming bank. In this respect, the FDIC notes that its claim will have priority over the claims of nondepositor creditors and shareholders of the closed bank.

Deposit brokers and the Bureau of Indian Affairs continue to place large amounts of fully-insured deposits in banks solely on the basis of the rate of interest paid, without regard to the condition of the institution involved. Banks paying above-market rates of interest often are experiencing serious problems. When such banks receive large amounts of fully-insured deposits from deposit brokers or from agencies such as the Bureau of Indian Affairs and subsequently fail, the cost to the deposit insurance fund is substantially and unjustifiably increased.

Deposits of the Bureau of Indian Affairs in Western State Bank total \$2.0 million. In the past three and one-half years, 31 failed banks, including Western State Bank, have had at least \$7 million in Bureau of Indian Affairs deposits among their insured liabilities.

Brokered funds in Western State Bank originated through First Empire Funding Corp., Huntington, New York. Institutions whose funds were placed in the failed bank included seven banks and six credit unions. The organizations for which the funds were deposited include:

COMMERCIAL AND SAVINGS BANKS

American Bank of Rock Island
Rock Island, Illinois

Bank of Richmondville
Richmondville, New York

Citizens Bank & Trust
Warren, Illinois

Colonial National Bank
Wilmington, Delaware

Global Union Bank
New York, New York

Summit Bank
Salix, Pennsylvania

Whitefield Savings Bank
& Trust
Whitefield, New Hampshire

CREDIT UNIONS

ACM ECU
Dearborn, Michigan

Anheuser Bush ECU
St. Louis, Missouri

Chessie EFCU
Cumberland, Maryland

Clinton Oak ECU
Pontiac, Michigan

First Community Credit Union
St. Louis, Missouri

Saginaw Eaton ECU
Saginaw, Michigan

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