



OFFICE OF THE CHAIRMAN

May 6, 1986

Honorable Fernand J. St Germain
Chairman
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance
Committee on Banking, Finance
and Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515-6051

Dear Chairman St Germain:

The following is provided in response to your questions regarding H.R. 4701 provided in your letter of May 1, 1986:

1. H.R. 4701, the Financial Institutions Emergency Acquisitions Amendments of 1986, would allow assisted and unassisted extraordinary acquisitions of insured banks (and their parent holding companies and affiliates) if the bank is "in danger of closing."

Please provide the Subcommittee with estimates on the number of institutions presently qualifying under the legislation's definition of "in danger of closing," the location on a state-by-state basis of these institutions, and the asset size levels of these institutions.

The chartering authority would have to make the determination of which banks are "in danger of closing" under the proposed legislation. Presently, there are about 1,000 banks with assets greater than \$250 million of which 78 are on our problem list. Recent experience indicates about 10 percent of the banks on the problem list fail or need FDIC assistance. We are reluctant to provide detailed information regarding the size or location of problem banks but there is an increasing number of larger institutions on the problem list.

2. Is it possible for a nonfinancial institution to avail itself of any of the provisions of H.R. 4701 in order to acquire an insured bank?

It is possible for a nonfinancial institution to acquire an insured bank under existing law and it would remain possible under H.R. 4701. This bill neither authorizes nor prohibits such a transaction.

3. Section 2 of H.R. 4701 confirms the FDIC's powers under section 13(c) of the Federal Deposit Insurance Act to assist a transaction. The Subcommittee is interested in the FDIC's use of section 13(c) in the past, the current level of outstanding assistance under 13(c) by the FDIC, and

FDIC's estimates on the future use of section 13(c) both generally, and in connection with certain extraordinary acquisitions under section 13(f) as amended by the legislation. Accordingly, please answer the following:

- a. From 1982 to the present, provide an annual compilation of the FDIC's assistance under section 13(c), with a breakdown of the total number of institutions assisted each year, including assistance to those persons acquiring control of insured banks under 13(f) as it is currently written, together with the name and location of each assisted institution or acquiring person, and an indication as to whether the action was taken to prevent the closing of an insured bank, to restore an insured closed bank to normal operation, or if such assistance was accorded to lessen the risk to the FDIC posed by the threat of instability due to severe financial conditions. Please include the amount of 13(c) assistance given in each transaction, broken down by the amount of loans to, deposits in, purchases of the assets of, or securities of, assumption of the liabilities of, or contributions made to insured banks or persons under section 13(c).
- b. Please state the level of FDIC assistance under section 13(c) currently outstanding, including an identical breakdown as specified above.

We have provided the information requested in tabular form on subsequent pages. In the interest of providing a timely response and in providing useful information we have excluded detail on assistance provided to facilitate within-state purchase and assumption transactions for banks that failed and were closed by their chartering authority. Such P&A transactions represent by far the most common form of assistance and will continue to be the most common form with or without new legislation. In 1982 there were 25 such transactions, 36 in 1983, 62 in 1984, 87 in 1985 and 29 through April 30, 1986. Information on these transactions can be provided at a later date if it is so desired.

- c. Please estimate the level of assistance anticipated under section 13(c) for the remainder of 1986, and for 1987, including separate estimates on the anticipated levels of assistance for transactions under the provisions in H.R. 4701 to amend section 13(f).

The circumstances surrounding problem banks and failing banks are constantly changing, often in unforeseen ways. It is not possible to anticipate the level or type of assistance with any degree of assurance beyond a very short time. However, we have had roughly 40 failures to date in 1986 and 120 in 1985. We do not foresee any improvement in those rates in 1986 and, therefore, expect approximately 80 or more additional failures by year-end. Presently there is little reason to expect significant improvement in 1987 but estimates that far in the future have little meaning.

During 1985, the FDIC disbursed \$2.3 billion in connection with bank failures and assistance transactions, about one quarter of these cases were depositor

payoffs with the rest being purchase and assumption or assistance transactions. We note however, the ultimate cost to the insurance fund will be considerably less than the amount disbursed.

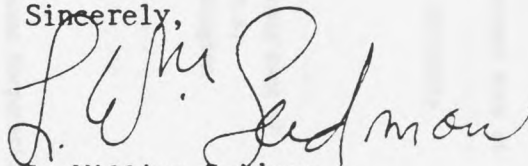
We have used the interstate provisions of section 13(f) three times. Only once has it resulted in an acquisition by an out-of-state bank. However, the existence of out-of-state bidders is believed to have been an important influence in obtaining a satisfactory bid from within-state institutions in the other two instances. We have not formally used the interstate provisions in handling any of the larger savings banks but in several cases we did informally make out-of-state inquiries to see if there was any interest. The interstate provisions are not expected to be needed frequently but may well be critical in handling selected institutions of modest to large size in a manner that provides the least disruption to the banking system and minimizes the impact to the FDIC fund.

4. H.R. 4701 would preserve the eligibility of insured banks (or their parent holding company or affiliated banks) to be acquired by an out-of-state bank or bank holding company, even after FDIC assistance has been granted under section 13(c) of the Federal Deposit Insurance Act, provided such assistance was initially granted after April 15, 1986, and remains outstanding.

Should out-of-state banks and bank holding companies continue to be allowed to acquire institutions receiving FDIC assistance, even after those institutions may no longer be in danger of closing or when the severe financial conditions which precipitated the assistance have subsided?

Our proposal envisions situations where the institution would fail but for FDIC assistance. Therefore, even though assistance has prevented failure the bank is not financially independent. The FDIC as a matter of policy does not desire to routinely maintain long-term financial involvement in insured banks. Having given assistance, which may involve continuing exposure to the FDIC fund, we would like to be able to seek a private market solution if the opportunity exists. Given the size of the banks involved, the normal inability of banks in the same area to diversify through acquisition of another area bank, and the potential that other major within state banks would be financially strained due to common economic problems, a private market solution is likely to require involvement of an out-of-state bank. Broadening the possible alternatives should also allow the FDIC to reduce the potential impact on the insurance fund. Therefore, so long as the FDIC is at risk in a given institution, that institution should be available for acquisition by out-of-state banks.

Sincerely,



L. William Seidman
Chairman