PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC RECOMMENDS STEPS TO IMPROVE BANK COMPLIANCE WITH MUTUAL-FUND DISCLOSURE GUIDELINES

FOR IMMEDIATE RELEASE

FDIC Chairman Ricki Helfer announced today that the agency is taking a series of steps to ensure that bank and thrift customers have the information they need to understand fully the risks involved with mutual funds and other uninsured products.

The FDIC Chairman acted after reviewing the results of a year-long study on the sale of investment products at banks. The study found that, for a number of banks, a gap exists between regulatory guidelines governing the sale of investment products and actual employee performance.

"Our study shows that more than a fourth of the banks surveyed are still failing to make basic disclosures required under guidelines we issued two years ago," she said. "Twenty-eight percent of the customers in our survey were not told that mutual funds lack deposit insurance. In 30 percent of the cases, institutions failed to disclose that the products are not obligations of the bank."

"Those results need to be improved," she added. The survey results also make it clear that some parts of the interagency statement on investment product sales need to be clarified. For example, while many institutions asked some questions aimed at matching customers with appropriate investments, there is clearly some confusion about how much information a financial institution must elicit under the guidelines to be in compliance with the suitability requirements.

"The FDIC will work with the banking industry to ensure that all bank customers are fully informed of the risks they are assuming when purchasing mutual funds and other investment products that do not carry federal insurance," Chairman Helfer said.

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

FDIC press releases and other information are available on the Internet at www.fdic.gov, by subscription electronically (go to www.fdic.gov/about/subscriptions/index.html) and may also be obtained through the FDIC's Public Information Center (877-275-3342 or 703-562-2200). PR-31-96

Chairman Helfer announced a number of initiatives that she said would help banks improve their performance without adding unnecessary regulation:

- Renewed efforts to adopt requirements that bank personnel engaged in the sale of investments take the securities industry's standard qualifying examinations. The survey demonstrated that a relationship exists between the level of training of bank employees and the adequacy of the disclosures they make. The FDIC is working with the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the National Association of Securities Dealers, the New York Stock Exchange and the Municipal Securities Rulemaking Board on this proposal.

- Seminars sponsored by the FDIC to train bankers on making complete and accurate disclosures in the sale of uninsured products.

- Revision of the FDIC's examination guidelines and an increase in the level of examiner training to ensure that institutions are making the appropriate disclosures and are engaged in efforts to match a customer's financial profile and investment strategy with suitable investment products. In particular, a questionnaire currently filled out by examiners after each examination will be revised to assist the FDIC in monitoring compliance with investment product disclosure requirements.

- Reexamination of the interagency policy statement on mutual fund sales to clarify the institution's obligation to assure that an investment recommendation meets the customer's needs.

- Improvements in FDIC automated data systems to provide high quality, up-to-date information that can be used by examiners in the field to pinpoint problems.

- Broader publication of the FDIC's toll-free consumer hotline (1-800-934-3342), which fielded 66,214 calls last year.

- Evaluation, on the basis of ongoing examination results, of the need for another survey in two years to assure effective compliance by banks with disclosure and other requirements for mutual fund sales.

The FDIC study was based on a survey conducted in 1995 by Market Trends, Inc., Bellevue, Washington. It involved the deployment of trained interviewers who contacted banks in person or by phone and used four different shopping scenarios. These "customers" completed 7,800 contacts -- about half in person and half by phone -- of more than 1,000 FDIC-insured institutions. It is the largest survey of its kind ever undertaken, and was designed to assure statistically verifiable results.

After receiving the report, the FDIC spent two months verifying every statistical result in the survey. A series of complex mathematical tests were performed to ensure that the statistical significance of each finding could be specified precisely. In addition, the FDIC hired a nationally recognized expert in sampling and survey techniques, Dr. Seymour Sudman of the University of Illinois, to verify the FDIC's calculations. The agency will also be doing additional analysis of the data generated by the survey.

Highlights of the study include the following findings:

- Ninety-one percent of the in-person shoppers were told that their investments were subject to market and interest-rate risk, and that they could suffer a loss of principal. However, only 72 percent were advised that their investment was not insured by the FDIC and even fewer -- 70 percent of in-person shoppers -- were informed that mutual fund and non-deposit investment products are not guaranteed by the bank. All three disclosures are called for by the compliance and disclosure guidelines.

- Only 71 percent of the on-site customers who met with an investment representative were directed to an area of the bank that was physically distinct from the deposit-gathering area, also a requirement of the regulatory guidelines.

- Nearly 100 percent of the customers visiting banks, and 96 percent of those who contacted banks by phone, were directed to qualified investment representatives, as the guidelines require.

The study also found that most banks asked some questions to determine which investment products best suited the needs of individual customers. Seventy percent of the customers visiting banks were asked at least two questions about their investment objectives and risk tolerance.

The study focused on initial contacts; no "customer" contacts were taken to the point of a final sale. "Customers" also refrained from asking questions to avoid "leading" the sales representatives.

Because the study was conducted as a nationally projectable sample survey, the results cited are subject to sampling variability. Each statistic in the study is reported with a range of variation that represents the 95 percent confidence interval -- that is, the range in which the true population value would be found 95 times out of 100.

Copies of the study results are available in the FDIC Public Information Center at 801 17th Street, N.W., Room 100, Washington, D.C., (703) 562-2200.