FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION
NEWS RELEASE

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## FDIC ISSUES PROPOSAL TO IMPLEMENT SECOND PHASE OF RESTRICTIONS ON STATE BANK ACTIVITIES

The FDIC Board of Directors today issued for public comment a proposal that would implement a second phase of new statutory restrictions on the activities of insured state-chartered banks.

The FDIC proposal would complete the implementation of provisions of the FDIC Improvement Act of 1991 (FDICIA) that prohibit state banks and their subsidiaries from conducting activities that are not permitted for national banks and their subsidiaries, with certain exceptions. In October 1992, the FDIC Board approved a final rule implementing the law's general prohibition on direct equity investments by state banks. That regulation, which went into effect December 9, 1992, primarily relates to a ban on certain equity investments. Today, the FDIC Board proposed a rule that would establish procedures and criteria for state banks to seek approval to engage in otherwise prohibited activities.

Of special significance is that the FDIC proposal would clarify that the law does not impose new restrictions on activities where the bank is not acting "as principal" (i.e., the bank is acting as an agent for a customer). This means there would be no change in a state bank's ability to operate insurance agencies, securities brokerage firms, real estate agencies, travel agencies, financial planning services or certain other agencies if authorized by state law, even if national banks cannot engage in these activities.

FDICIA prohibits a state bank from engaging as principal in an activity either directly or through a majority-owned subsidiary that is not permissible

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for a national bank unless the bank meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the insurance funds. The proposal includes a tentative list of activities that would not present a significant risk to the funds, including certain guarantee activities (such as a credit card program in which a bank guarantees the obligations of its retail banking customers), activities that are "closely related to banking" (as defined by the Federal Reserve Board), and securities activities conducted in a subsidiary.

A state bank wanting to directly or indirectly conduct otherwise prohibited activities that are not specifically exempted by the FDIC are required to apply for permission. Such activities begun before the effective date of the statute (December 19, 1992) may be continued if the FDIC grants approval.

The FDIC Board also issued two related proposals. One would provide that state banks that are members of the Savings Association Insurance Fund are under the same restrictions on corporate activities that apply to state banks that are members of the Bank Insurance Fund. The other proposal would eliminate certain existing regulations in areas such as surety, fidelity and guarantee businesses now that these activities are subject to the other regulations implementing FDICIA's restrictions on state bank activities.

Written comments on the FDIC proposals will be accepted for 60 days after they appear in the Federal Register.

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