FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC PROPOSES RULE ON SAFETY AND SOUNDNESS STANDARDS

The FDIC's Board of Directors today solicited public comment on a proposed rule that would require insured depository institutions to meet general safety and soundness standards designed to address problems in an institution before they have an adverse impact on the institution's financial condition.

Section 132 of the FDIC Improvement Act (FDICIA) added a new section 39 to the FDI Act, which requires each Federal banking agency to prescribe safety and soundness standards in the following three areas:

- **Operational and managerial** standards on internal controls, financial reporting procedures, information systems and internal auditing systems. Standards will also be required for loan documentation, credit underwriting, interest rate exposure and asset growth.
- **Asset quality and earnings** standards that set a maximum ratio of classified assets to capital and specify the minimum earnings sufficient to absorb losses at an institution without impairing capital.
- **Compensation** standards regarding pay, fees and benefits that prohibit compensation that is excessive or could result in material financial loss to the institution.

Under this proposal an insured depository institution or company that fails to meet any of the prescribed standards will be required to submit and implement an acceptable plan to achieve compliance. Failure to submit or

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implement such a plan within the time allowed will result in an order to correct the deficiency.

In July 1992, the FDIC sought public comment in an advance notice of proposed rulemaking. The overwhelming majority of the over 400 comments received by the four Federal banking agencies urged the agencies to develop general standards. Based on those comments and on other considerations, the standards establish the objectives of proper operations and management while leaving the specific methods for achieving those objectives to each institution.

The proposed standards do not represent a change in the agencies' policies. These standards instead formalize the fundamental standards already used by the FDIC when supervising institutions. Well-managed institutions should not find it necessary to change their operations to comply with the proposal. In addition, for small institutions that may require less sophisticated systems and practices, the proposal provides sufficient flexibility to incorporate practices that are appropriate to the size and nature of the institution's activities.

The FDIC proposed the rule pursuant to section 132 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) concerning safety and soundness standards. Under the FDICIA, final regulations must be promulgated no later than August 1, 1993, and become effective no later than December 1, 1993. The proposal was approved for publication in the <u>Federal Register</u> for a 45-day comment period.

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