FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC REDUCES OFFICIAL PROJECTIONS FOR BANK FAILURES IN 1993 AND 1994

The FDIC announced today that based on continued improvements in banking industry performance, the agency is reducing its projections for future bank failures.

The FDIC now projects that commercial and savings banks with combined assets of about $10 billion are likely to fail this year. This is down from the previous estimate, developed earlier this year, showing approximately $25 billion in failed bank assets in 1993. The FDIC now also estimates that banks with total assets of $20 billion could fail in 1994, compared to the previous estimate of $45 billion in failed bank assets.

FDIC Chairman Andrew C. Hove, Jr., said: "Due to the continuing strong performance of the banking industry and improvements in bank regulatory procedures, the FDIC is pleased to be able to lower its estimates of future bank failures. Many banks that just a few months ago appeared weak and at risk of closing now have been merged or have been able to increase their capital levels through improved profits or successful new equity offerings.

"However," Mr. Hove added, "despite this improved outlook, deposit insurance assessment rates will remain unchanged because of the FDIC's statutory requirement to recapitalize the Bank Insurance Fund. Even if we are fortunate enough to see a continuing improvement in the volume of bank failures, it will be some years before the insurance fund is restored to an adequate level."

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The Bank Insurance Fund (BIF) is significantly below the level that Congress and the FDIC Board of Directors consider to be fiscally sound. The reasons include record bank failures in the late 1980s, certain large failures in the early 1990s and the recent agreement reached with the General Accounting Office (GAO) to set aside reserves for future bank failures.

Preliminary information indicates that the BIF had a balance of $1.2 billion at the end of the first quarter of 1993, or about six cents for every $100 of insured deposits. (At the beginning of 1992, the BIF balance stood at a negative $7 billion.) In 1991, Congress enacted legislation requiring the FDIC Board of Directors to boost the BIF to $1.25 for every $100 of insured deposits within 15 years.

After a period of record bank failures and reduced profits, the commercial banking industry has made great improvements in recent months.

For example, as of June 23 of this year, 22 banks with $2.7 billion in assets have failed. By this time last year, 61 banks with $19.9 billion in assets had closed. During all of 1992, the FDIC handled 120 failed banks and provided assistance to two small banks that were in danger of failing. Those 122 banks had combined assets of $44.2 billion.

In addition, the FDIC previously announced on June 9 that commercial banks had profits of $10.9 billion in the first quarter of 1993 -- the highest quarterly total in the industry's history. This followed record annual earnings of $32.2 billion during 1992.

Mr. Hove said: "We hope that banking industry conditions will continue to move in a positive direction and continue to take pressure off the Bank Insurance Fund. However, we also must remain cautious because if the current favorable conditions for banking turn unfavorable, that could have an adverse impact on the industry and on the insurance fund."

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