FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC ADOPTS RULE IMPLEMENTING RESTRICTIONS ON
ACTIVITIES OF STATE-CHARTERED BANKS AND SUBSIDIARIES

The FDIC Board of Directors today approved final rules implementing statutory restrictions on the activities of insured state banks and their majority-owned subsidiaries.

With certain exceptions, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) prohibits state banks and their majority-owned subsidiaries from conducting activities "as principal" that are not permitted for national banks. The bank may, however, engage in an otherwise prohibited activity if it meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the deposit insurance funds. The FDIC regulation issued today does the following:

(1) Defines the term "as principal" to exclude agency activities. This means that a state bank can, without prior FDIC consent, operate insurance agencies, securities brokerage firms, real estate agencies, travel agencies, financial planning services and certain other agencies if authorized by state law.

(2) Lists activities that do not present a significant risk to the insurance funds and therefore are permissible. These include activities defined by the Federal Reserve Board as "closely related to banking," securities activities conducted in a subsidiary, and certain stock holdings by a majority-owned subsidiary.

(3) Describes the application procedures for an institution seeking FDIC consent to continue or begin an otherwise prohibited activity. The rule

-morealso contains the time frames for discontinuing or phasing out activities that an institution decides not to continue or is refused permission to continue.

The final rule does not modify restrictions issued in October 1992 on the ability of state banks to own corporate stock and mutual fund shares, and to have direct equity ownership in other investments such as real estate development projects. Those various restrictions also were issued in response to requirements in FDICIA.

In related matters, the FDIC Board today also took actions on three other regulations involving the activities of state-chartered institutions. One change puts state banks that are members of the Savings Association Insurance Fund under the same restrictions on corporate activities that apply to banks that are members of the Bank Insurance Fund. Another action eliminates long-standing restrictions in areas such as the surety, fidelity and guarantee business, since these activities are now subject to the new restrictions on state bank activities under FDICIA. And, finally, certain restrictions on the activities and investments of state-chartered savings associations have been modified to conform to those contained in the new rule for state banks issued today.

The new rules are scheduled to go into effect when they are published in the Federal Register.

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