NEWS RELEASE

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FDIC CLARIFIES LIQUIDATION AND SUPERVISION POLICIES

The Federal Deposit Insurance Corporation (FDIC) today clarified liquidation and supervision policies used by the agency for handling performing loans that become receivership assets as a result of the failure of an insured bank.

The FDIC said:

- o Borrowers are permitted to continue making payments according to the terms of their loan agreement. The FDIC will make no claims or demands that are contrary to the loan agreement. The FDIC will not foreclose on or litigate with any borrowers who are meeting their obligations under their loan agreement with the failed institution.
- o When a loan that is being paid as agreed matures, and a borrower cannot refinance the obligation at another financial institution, the FDIC liquidation account officer will attempt to work with a cooperative borrower to restructure the loan. The goal is to create a loan that will be saleable to another institution. Any deficiencies in loan file documentation should be addressed and corrected at this time.
- o Examiners do not criticize or adversely classify loans or portions of loans where any loss potential is eliminated by a "put" or guarantee by the FDIC. Even without such explicit loss protection, FDIC examiners do not automatically look negatively at a loan merely because it was purchased from or used to refinance a loan at a failed bank receivership. Such a loan is analyzed on its own individual credit characteristics.

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Additionally, the agency reiterated today that another possible funding mechanism — one used by the agency in a number of transactions — may be available to certain borrowers. Under that arrangement, the FDIC will permit the purchasers of performing loans with a "put" option to the FDIC to extend additional credit to the borrower up to a maximum of 10 percent of the loan amount. The additional advance also would be protected against loss by the FDIC. This feature is intended to enhance the FDIC's prospects for realizing full recovery on the original loan. Additional advances covered by such FDIC loss protection will not be subject to criticism or adverse classification by FDIC examiners.

The agency also clarified its handling of loans from the failed Bank of New England Corporation (BNEC) subsidiaries that are being managed by RECOLL Management, Inc., a subsidiary of Fleet/Norstar Financial Group, Inc., Providence, Rhode Island.

- o Performing loans not purchased by Fleet/Norstar will be offered for sale to other banks. Fleet/Norstar has already announced it will purchase $500 million of the $1.2 billion pool of these loans. Such loans had been retained by the FDIC as receiver. Purchasers of loans from the pool have the option of returning the loans to the FDIC for up to three years.
- o Borrowers with current loans being managed by RECOLL who believe their loan should be included in the pool to be purchased by Fleet/Norstar or other banks may request a review of their situation by writing to: FDIC, Division of Liquidation, Assistance Transactions Branch, P.O. Box 3016, Boston, MA 02101-3016.

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The FDIC also repeated its policy regarding the treatment of customers of failed banks. The agency said: In dealing with the public, whether borrowers, lenders or customers of failed banks, employees of the FDIC and those of its contractors are to use courtesy as the basis for any discussions. The FDIC will not tolerate intimidation or harrassment of those doing business with an FDIC receivership. Moreover, the FDIC will investigate any charges brought to it relating to improper conduct by either its own employees or those of its contractors. If the allegations are substantiated, appropriate action will be taken.

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