FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

# NEWS RELEASE

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## FDIC ISSUES PROPOSAL ON LOANS TO EXECUTIVE OFFICERS

The FDIC Board of Directors today asked for public comment on a plan to phase in new limits on loans that FDIC-supervised banks can make to their executive officers.

The proposal would affect loans by a bank to its executive officers for purposes other than an education loan or a home loan -- typically auto loans, unsecured loans and loans to purchase stock or other investments. The plan is intended to implement a provision of a new banking law that toughens existing safeguards against abuses by bank officials.

The FDIC supervises about 7,200 state-chartered banks that are not members of the Federal Reserve System and 400 state-chartered savings banks. Under current rules, loans to executives of FDIC-supervised banks are subject to portions of the Federal Reserve Board's Regulation O that limit a bank's total outstanding loans to any one borrower. In general, this limit on loans to one borrower is 15 percent of the bank's unimpaired capital and surplus for credit not fully secured by collateral or 10 percent for credit that is fully secured. Regulation O's additional limits on loans to executive officers for purposes other than education or home loans have not applied to FDIC-supervised banks.

However, major banking legislation signed into law in December includes a provision that brings executives of FDIC-supervised banks under these other limits of Regulation O as well. Specifically, the Federal Reserve Board and the Comptroller of the Currency for years have limited loans to executive

-more-officers for purposes other than an education or a home purchase to the greater of 2.5 percent of the bank's capital and unimpaired surplus or $25,000, but no more than $100,000. The FDIC today is proposing to adopt the same limits for these "other purpose" loans, but with special phase-in provisions for outstanding loans.

Under the proposed amendments, any outstanding extension of credit to an executive officer that is above the new dollar-limit when that limit goes into effect would be treated in one of two ways. If the outstanding loan has a maturity date one year or later from the effective date of the final rule, that loan must be repaid according to the payment terms already in existence. If the loan above the dollar limit has a maturity date less than one year after the final rule takes effect, that loan could be renewed for up to one year after the rule goes into effect. In addition, an FDIC-supervised bank could apply to the agency for two additional one-year extensions. The bank would have to apply to its FDIC Regional Director for supervision and show why there is "good cause" for needing additional time to comply with the cap. The proposed phase-in is identical to the one adopted by the Federal Reserve in 1979 when it first adopted Regulation O limits on loans to officers, directors and others.

Comments are due 30 days after the proposal appears in the <u>Federal Register</u>.

The term "executive officers" under Regulation O typically refers to a bank's chairman, president, vice presidents and certain other policymakers.

In accordance with the new law, the FDIC also today issued a final rule that formally conforms FDIC rules on loans to bank officers with those parts of Regulation O that formerly did not apply but that now do.

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