FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC UPDATES STATEMENT OF POLICY REGARDING APPLICATIONS FOR DEPOSIT INSURANCE

The FDIC Board of Directors today approved a revised policy statement regarding deposit insurance applications. The statement updates policies previously issued in 1980 and 1987.

The statement covers applications from existing institutions operating without federal deposit insurance as well as proposed new banks in organization, including institutions being formed for the sole purpose of acquiring a failed bank or thrift.

One major change in the policy increases from $750,000 to $2 million the normally expected minimum initial capitalization for proposed new institutions seeking federal insurance. The FDIC will consider approving an application with a lower amount provided there are "compelling circumstances." In addition, the initial capital must be sufficient to provide a projected ratio of "Tier 1" leverage capital (in general, equity capital as a percentage of total estimated assets) of at least eight percent at the end of the third year of the institution's operation. This change recognizes the revisions that have been made to the definitions of capital since the former policy was written.

New institutions proposing operating plans that rely on high risk lending, niche marketing, significant funding from sources other than core deposits or that otherwise diverge from traditional banking will require extensive documentation as to the suitability of the activities. The FDIC intends to work closely with the chartering authority in the processing of any application. It is expected that most of the required information can be duplicated and serve both authorities.

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Other significant changes or clarifications from the previous FDIC policy statement include provisions that:

- o Organizers, including holding companies, demonstrate the ability to support the new institution's operations and provide capital.
- o The institution's organizers, directors, officers, large shareholders (10 percent) and their associates and interests are not to be provided stock purchase price differentials allowing immediate stock appreciation at the expense of other stockholders. Any stock bonuses or stock option plans for "insiders" should be fully disclosed to all shareholders.
- o Institutions must agree to obtain an independent audit for at least the first five years after insurance coverage is granted.

The revised policy statement is intended in part to implement additional responsibility Congress gave the FDIC in 1989 and 1991 to grant or deny federal deposit insurance for all banks and savings associations. Under previous law, only state-chartered banks supervised by the FDIC were required to apply to the FDIC for insurance. National banks chartered by the Comptroller of the Currency and state banks supervised by the Federal Reserve Board received insurance automatically with their charters. Under the FDIC Improvement Act of 1991, however, these banks now must receive FDIC approval for insurance. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 also required new federal and state chartered savings associations to apply to the FDIC for insurance.

The new guidelines become effective when they are published in the Federal Register.

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