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FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC AMENDS RULES ON LOANS TO EXECUTIVE OFFICERS

The FDIC Board today adopted new limits on loans that FDIC-supervised banks can make to their executive officers.

At issue are loans by a bank to its executive officers for purposes other than an education loan or a home loan -- such as other types of consumer loans as well as commercial and agricultural loans. The regulation adopted today implements a provision of the FDIC Improvement Act of 1991 and makes loans to executives at state nonmember banks subject to the same limits as those that currently apply to officials at banks that are members of the Federal Reserve System.

The final rule, which is substantially the same as a proposal issued for public comment in February, includes compliance phase-in provisions for existing loans that do not comply with the new rule.

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 previous rules, loans to executives of FDIC-supervised banks were subject to portions of the Federal Reserve Board's Regulation O that limit a bank's total outstanding loans to any one borrower to 15 percent of the bank's unimpaired capital and surplus, plus another 10 percent if fully secured by readily marketable collateral. However, the FDIC Improvement Act brings executives of FDIC-supervised banks under additional limits in Regulation O that previous did not apply -- these being restrictions on loans for purposes other than education or a mortgage.

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The FDIC is adopting the same limit on these "other purpose" loans as those the Federal Reserve Board and the Comptroller of the Currency have imposed since 1983 for state member banks and national banks, respectively. Effective 30 days after the final rule is published in the Federal Register, an FDIC-supervised bank must limit "other purpose" loans to an executive officer to the greater of 2.5 percent of the bank's capital and unimpaired surplus or $25,000, but no more than $100,000.

Existing loans that may be above the new dollar-limit will be allowed to phase in to compliance 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 may 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, it can be renewed for up to one year after the rule goes into effect.

In addition, an FDIC-supervised bank can apply to the agency for two additional one-year extensions. The bank would have to demonstrate to the FDIC why there is "good cause" for needing additional time to comply with the new limit.

The phase-in is similar to the one adopted by the Federal Reserve Board in 1979 when it first adopted Regulation O limits on loans to officers, directors and others.

Executive officers subject to the new limit typically are a bank's chairman, president, vice presidents and certain other policymakers. Directors who are not executive officers of the bank are not subject to the new FDIC-imposed limit but will be subject to other restrictions that the Federal Reserve Board is required to include in Regulation O.

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