NEWS RELEASE

FOR IMMEDIATE RELEASE PR-96-92 (6-19-92)

FDIC ISSUES PROPOSAL TO IMPLEMENT RESTRICTIONS ON STATE BANK INVESTMENTS

The FDIC Board of Directors has issued for public comment a proposal to implement new statutory restrictions on the ability of state-chartered banks to own corporate stock and mutual fund shares or to have equity ownership in other investments such as real estate development projects.

The FDIC Improvement Act of 1991, with certain exceptions, prohibits a federally insured state-chartered bank from making or retaining equity investments of a type or amount prohibited for a national bank, subject to complete divestiture by December 19, 1996. For example, since national banks generally are prohibited from owning stock or mutual fund shares, the new law prohibits these investments for state banks.

The statutory prohibition provides a partial exception for an institution meeting two conditions: (1) The bank had ownership of qualifying stocks or mutual funds during the 14-month period from September 30, 1990, through November 26, 1991. (2) The bank's state permitted such investments as of September 30, 1991. The proposal establishes the procedures whereby an institution that meets these two conditions and wants to retain or acquire new qualifying stock or mutual fund shares provides the necessary notice to the FDIC of its intention and may receive the agency's approval. The FDIC, in making its determination, is required to look at any significant risk to the insurance fund as well as the potential impact on the institution's safety and soundness. A bank receiving FDIC approval to continue making these equity investments is subject to an aggregate limit under the new law equal to no more than the institution's

(more)

capital. The proposal also includes the agency's interpretation defining the limits on types of investments and calculation of the capital limitation.

The proposal also would require reports from state-chartered banks on two other matters. First, an institution with equity investments not exempted from the prohibition would be required to submit to the FDIC a plan to divest such holdings as quickly as can be prudently done. Second, a bank that was lawfully engaging in insurance underwriting as principal on November 21, 1991, or a bank that had a subsidiary that was lawfully providing insurance as principal on that date, is exempt from the general prohibition on these insurance activities but would be required to give notice of its activity to the FDIC. The law also exempts investments in certain qualifying housing projects.

Comments on the FDIC proposal will be accepted for 30 days after it appears in the Federal Register.

The same law imposes restrictions on the corporate activities of state-chartered banks effective this coming December. This FDIC proposal deals only with the equity investment limits because they went into effect December 19, 1991, and there is a need to clarify how the FDIC will implement the restrictions. The FDIC in the near future intends to issue a separate proposal relating to state bank activities.

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