FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC ADOPTS RULES TO IMPLEMENT RESTRICTIONS ON STATE-CHARTERED BANKS

The FDIC Board of Directors today approved final rules implementing new statutory restrictions on the equity investments of state-chartered banks that are federally insured.

The new rules implement provisions of the FDIC Improvement Act of 1991 (FDICIA) restricting the ability of state-chartered banks to own corporate stock and mutual fund shares, and to have equity ownership in investments such as real estate development projects. Congress enacted these restrictions because of past bank and thrift failures attributed in part to authority under state law to make these kinds of high-risk investments.

FDICIA prohibits insured state-chartered banks from making equity investments of a type or amount not permitted for national banks, and mandates divestiture of these investments by December 19, 1996. However, the law provides a partial exception for stock and mutual fund ownership by an institution meeting two conditions: (1) the state bank had ownership of qualifying stocks or mutual funds during the 14-month period from September 30, 1990, through November 26, 1991, and (2) the bank's state permitted such investments as of September 30, 1991.

An institution that meets these two conditions can retain or acquire new qualifying stock or mutual fund ownership if it notifies the FDIC of its intention and receives the agency's approval. In making its determination, the FDIC is required by FDICIA to look at any significant risk to the insurance fund as well as the potential impact on the institution's safety and soundness.

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FDICIA states that a bank receiving FDIC approval to continue making stock or mutual fund equity investments will be subject to an aggregate maximum limit equal to the institution's capital. The FDIC today decided to review each request on a case-by-case basis when deciding which institutions can invest up to the maximum limit. The FDIC said the benefit of the doubt will be given to banks considered "well-capitalized" and, absent other signs of problems, to banks considered "adequately capitalized."

An institution that holds prohibited equity investments is required to submit to the FDIC a plan to divest such holdings as quickly as can be prudently done.

FDICIA also includes restrictions on the activities of state banks and their subsidiaries. The FDIC intends to issue separate regulations in the near future implementing that aspect of the law. However, one aspect of today's rulemaking involves a notice requirement for banks engaging in insurance underwriting. A bank that was lawfully engaging in insurance underwriting on November 21, 1991, or a bank that had a subsidiary that was lawfully underwriting insurance on that date is exempt from a general prohibition in FDICIA on insurance activities but must give notice to the FDIC. The new regulations set out the notice procedures institutions must follow if they wish to continue the insurance activities.

The FDIC Board's actions today also make clear that FDIC-insured state banks will be under the same restrictions on equity investments, whether they are members of the Bank Insurance Fund or the Savings Association Insurance Fund.

The new rules are scheduled to go into effect 30 days after appearing in the <u>Federal Register</u>.

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