FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC REVISES POLICY ON GRANTING FINANCIAL ASSISTANCE TO OPEN INSTITUTIONS

The FDIC Board of Directors today adopted a revised policy statement that outlines the criteria the agency will follow in considering requests for financial assistance from institutions in danger of failing.

The new policy statement largely reflects changes mandated by the FDIC Improvement Act of 1991 (FDICIA). These include a possibility of "early resolution" of institutions that are troubled and the requirement that failing institutions generally be resolved in the manner that is the least costly to the deposit insurance fund. The latter means that the FDIC Board can grant open assistance only if that option would be more cost-effective than resolving the institution if and when it closes. The revised policy statement also addresses provisions of FDICIA that require the FDIC to make certain findings with respect to the ongoing management of the institution.

Of special significance is that the FDIC's revised policy statement stresses the importance of the timing of requests for assistance. Because of factors such as negotiations with regulators and shareholders and the complexity of assistance transactions, the FDIC is encouraging an institution's management to submit any proposals for open assistance "well before grounds first exist for the institution's closure."

The statement continues: "In general, this timing consideration will require the board of directors of the insured institution to make the difficult business judgment that the institution is <u>likely</u> <u>enough</u> to fail that the balance of their responsibilities, including those to depositors as well as shareholders, compels the board to seek assistance, and to make that

-more-judgment before it is certain that the institution will fail." For larger institutions seeking open assistance, the FDIC said that unless discussions begin about 18 months before the probable closing of the institution "it will be difficult to effect an open assistance transaction."

Harrison Young, Director of the FDIC's Division of Resolutions, said today that past experience has shown that boards of troubled institutions "don't seem to be willing to face reality early enough."

Mr. Young added that receiving open assistance is "no free lunch" for the institution involved. The FDIC policy does not require that existing stockholders and creditors be treated as if the institution failed, but they will be required to make "substantial concessions."

The FDIC receives many requests for open assistance but rarely grants this aid, especially in recent years. A total of 74 banks have received open assistance from the FDIC since the authority first was used in 1981. Open assistance has become more rare as a result of statutory and other changes that enhanced the FDIC's options for dealing with problem institutions, such as bridge bank authority. Only one open assistance transaction has been approved this year and three were approved last year, with none of the banks exceeding $30 million in total assets.

The new policy statement will become effective when it is published in the Federal Register. Copies of the statement may be requested from the FDIC's Office of Corporate Communications.

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