



# NEWS RELEASE

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PR-66-91 (4-30-91)

## FDIC ADOPTS RESTRICTIONS ON S&Ls CONVERTING TO BANKS

The FDIC Board of Directors today agreed to a final rule that requires federally insured savings and loan associations that convert to bank charters to continue adhering to restrictions on high-risk activities, such as the federal prohibition on junk bond investments by S&Ls.

The rule was adopted by the FDIC because a growing number of states have enacted, or are considering, legislation to allow savings associations to become state chartered banks or savings banks. The FDIC's concern is that under state law, a savings association that undergoes a "charter flip" could escape safeguards Congress imposed to protect the Savings Association Insurance Fund (SAIF) from losses caused by high-risk investments that were authorized by states in the past and contributed to the S&L crisis.

Under the FDIC's final rule, an S&L that converts to a state chartered bank -- be it a savings bank, commercial bank or some other form of bank -- and retains its membership in the SAIF fund will continue to be subject to restrictions and notice requirements imposed on S&Ls by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

In addition to FIRREA's prohibition on junk bond investments, these restrictions include limits on loans to one borrower and prohibitions on loans to affiliates engaging in certain high-risk activities. The law also requires prior notice to the FDIC before establishing subsidiaries or conducting a new activity in an existing subsidiary.

FDIC Chairman L. William Seidman said: "There is clear evidence that junk bonds, speculative real estate ventures and other high-risk investments

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are sure-fire ways for an institution to get into trouble and to put the insurance fund at risk. The FDIC's action today preserves and protects some very prudent safeguards that Congress enacted in the aftermath of the S&L crisis."

The FDIC's final rule is broader than a proposal issued for public comment late last year. The November proposal only would have affected S&Ls converting to savings banks, but the final rule covers conversions to any kind of SAIF-insured state bank. SAIF member national banks are not covered by this rulemaking since these institutions already are subject to rules that, with minor exceptions, are comparable to or tougher than the limits in the FDIC rule.

The new rule is scheduled to go into effect 30 days after it is published in the Federal Register.

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