



NEWS RELEASE

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FDIC PROPOSES NEW SAFEGUARDS AGAINST ABUSES BY BANK OFFICERS AND DIRECTORS

The FDIC Board of Directors, citing fraud and abuse by bank officers and other "insiders" as factors in many bank problems and failures, today asked for public comment on a proposed rule aimed at preventing future losses and improving detection procedures.

Existing rules already put limits on loans to insiders. However, FDIC officials contend that additional safeguards are needed against abuses in business dealings other than extensions of credit. These include preferential sales, leases, commissions, fees and deposit interest rates.

Significant insider abuse has been identified in 42 percent of the 184 banks that failed in 1987; 31 percent of the 200 banks that failed in 1988; and 25 percent of the 206 banks that failed in 1989.

FDIC Chairman L. William Seidman said: "Our records also show that insider fraud has accounted for more than half of all the financial institution fraud and embezzlement cases brought by the Federal Bureau of Investigation in recent years. Total losses to the FDIC from those cases alone reached several hundred million dollars. It is clear that insider abuse is a threat to bank safety and something the FDIC will not tolerate."

The FDIC proposal would address any non-loan business dealing between an insured nonmember bank and a bank insider that provides a direct or indirect economic benefit to the individual. In general, the proposal would require that the business dealing be intended for the benefit of the bank, not just the insider, and that the transaction be made on terms that are substantially the same as those for non-insiders. Certain large transactions also would

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require advance approval by a majority of the bank's board of directors in accordance with other provisions of the proposed rule.

The proposed rule, if adopted, also would set new recordkeeping requirements and require each bank to adopt written guidelines covering business dealings with insiders. The new records would help examiners and auditors better scrutinize insider transactions and prevent abuses before the safety of the bank might be adversely effected.

According to Chairman Seidman: "Inadequate recordkeeping nearly always contributes to insider abuse and hampers our investigations of these abuses. In addition, we have found that institutions victimized by fraud and abuse typically lacked written policies and procedures to detect insider involvement early enough to prevent a problem. We believe the proposals being issued today by the FDIC would go a long way toward addressing these and other causes of insider fraud and abuse."

Another aspect of the FDIC proposal would prohibit insured nonmember banks from investing in real estate in which an insider has an equity interest. These transactions are believed by FDIC staff to be excessively dangerous, involving greater risk than most other investments and creating conflicts of interest for the bank insider.

Comments on the proposed regulation will be accepted for 60 days after it appears in the Federal Register. The Office of the Comptroller of the Currency is expected to issue a similar proposal soon.

Past investigations by the FDIC have found losses from a wide variety of abuses unrelated to loans. These include: diversions of assets and income by an insider for personal use; approvals of questionable transactions involving an insider's relatives; sales or purchases of assets at preferential prices or quantities; and the acceptance of bribes or gratuities.