FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE
PR-141-91 (9-24-91)

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FDIC PROPOSES LIMITS ON GOLDEN PARACHUTES, OTHER PAYMENTS TO INSIDERS

The FDIC Board of Directors issued for public comment today a proposal intended to prevent insured banks and savings associations from entering into excessive or inappropriate compensation arrangements with employees and directors, among them certain "golden parachute" payments.

The FDIC proposal is aimed at stopping abuses in two basic areas. One is when a troubled institution makes a large cash payment to an executive officer when that individual resigns -- often referred to as a golden parachute. The other is when an institution either reimburses or pays "up front" for liabilities or legal expenses an officer, director or employee incurs in connection with an administrative or civil enforcement action.

The agency has encountered past abuses with golden parachutes when institutions pay substantial sums to top executives who decide to resign just after being given notice by a regulator that the institution is troubled or must be sold or closed. Not only do these payments "reward" individuals who contributed to the demise of the institution, but they increase the cost of the failure to the insurance funds.

As for indemnification payments, the FDIC believes that individuals who violate banking laws should pay penalties and legal expenses out of their own pockets and not be reimbursed by insured institutions. This helps deter fraud and protect the insurance funds.

Anti-fraud legislation enacted by Congress last year authorized the FDIC to prohibit or limit "any golden parachute payment or indemnification payment." However, FDIC officials believe that some golden parachutes and

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indemnification agreements may represent legitimate business practices. As a result, the proposal issued for comment today is intended to provide reasonable exceptions to an outright prohibition.

The FDIC proposal generally would prohibit golden parachute arrangements by an institution that is insolvent, in conservatorship or receivership, rated "4" or "5" on the interagency five-point rating scale for financial soundness, or that is subject to a proceeding to terminate deposit insurance. Exceptions would be permitted if a golden parachute were used to:

- Attract a new manager to improve the institution's condition, provided the institution obtains the written consent of its primary federal regulator and the FDIC.
- Provide financial assistance to staff losing their jobs in a cost-cutting move. The proposal would limit the maximum severance benefit and require 30 days' prior notice to the primary regulator and the FDIC before paying a senior executive.
- Supplement traditional retirement benefits for senior executive officers through certain deferred compensation plans.

The proposal also would ban any insured institution from making indemnification payments to an employee prior to a final order clearing the individual of any charges, unless the institution's board satisfies six criteria indicating that the payment or reimbursement is reasonable.

Comments will be accepted for 60 days after the proposal appears in the Federal Register. The FDIC is particularly interested in comments on whether the plan would appropriately balance the needs of the insurance funds with the needs of institutions to attract and retain qualified directors and managers.

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