



NEWS RELEASE

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FDIC TO HOLD PUBLIC HEARING AND EXTEND COMMENT PERIOD ON PROPOSED CHANGES TO DEPOSIT INSURANCE COVERAGE

The Board of Directors of the Federal Deposit Insurance Corporation today agreed to hold a public hearing on proposed changes to the deposit insurance coverage of an employee benefit program largely for workers in state and local governments.

At issue is how much insurance coverage to grant to deposits of "457 Plans," which are deferred compensation plans for employees of state or local governments or tax-exempt organizations established in accordance with Section 457 of the Internal Revenue Code. The deposits are made by the employers into accounts at insured banks and savings institutions.

The matter is under consideration as part of a broader revision of deposit insurance rules, mostly to reconcile differences between the rules for FDIC-insured banks and those for savings institutions previously protected by the Federal Savings and Loan Insurance Corporation (FSLIC). The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 brought federal deposit insurance for savings institutions under the management of the FDIC and required the agency to issue uniform rules for all FDIC-insured institutions.

In the case of 457 Plan deposits, for example, FDIC and FSLIC rules differ significantly and are required to be reconciled. An FDIC proposal issued in December has resulted in a large number of letters, many from individuals opposing the plan and insurance companies supporting it. At a meeting today, the FDIC Board decided to hold a public hearing on March 14, 1990, to obtain more information on 457 Plan deposits, including the size of the market and the ownership rights of parties in these deposits.

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FDIC Chairman L. William Seidman said: "We believe that our staff, as well as the public, would benefit from a frank and open discussion of the issues surrounding 457 Plan deposit insurance. Our intention is to issue a final rule that is fair to depositors, reasonable to the FDIC in terms of risk, and consistent with the deposit insurance laws under which we must operate."

In addition, the FDIC Board agreed today to extend the date by which comments are due on the entire package of December proposals to change the deposit insurance regulations. The previous comment deadline was February 20, 1989. That now has been extended to March 23, 1990, largely to take into account the upcoming public hearing. The Board also agreed today that it will not take final action on the regulations until April 16, 1990, at the earliest.

Other types of deposits for which the FDIC is proposing to reconcile differences in insurance rules include revocable trust accounts and accounts where more than one person has the right to withdraw funds.

The FDIC currently covers up to \$100,000 in the aggregate for a 457 Plan's accounts placed in an FDIC-insured bank, not \$100,000 per person participating in the plan. However, the FSLIC insured 457 Plan deposits on a more liberal basis — up to \$100,000 per participant in the plan and separate from any other deposits maintained by the employer or the individuals at the same insured savings institution.

The FDIC in December proposed to extend its rule to 457 Plans deposits at insured savings institutions, based on an interpretation of existing law which provides that the employer is the sole owner of the funds until they are distributed. The FDIC will continue to apply the previous FSLIC rule to deposits in thrift institutions until the new uniform regulations become effective.

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