



NEWS RELEASE

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FDIC REVISES POLICY ON ASSISTANCE TRANSACTIONS TO INCLUDE SAVINGS ASSOCIATIONS

The Board of Directors of the FDIC today revised its policy statement on financial assistance to operating insured banks, which was issued in 1986, to also apply to savings associations. The revised policy statement retains the key elements of the 1986 policy statement and adds new criteria to ensure that least-cost proposals for open assistance to banks and savings associations will result.

The FDIC may provide assistance: (1) to prevent the failure of insured banks and savings associations; or, (2) when severe financial conditions threaten the stability of a significant number of insured institutions or the stability of insured institutions with significant resources.

The revised policy statement reflects the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and the FDIC's experience since 1986. The FDIC also has new authority to provide open assistance to savings associations under Section 13(k)(5) of the Federal Deposit Insurance Act (FDI Act), which was added by FIRREA. The new section focuses on open assistance to savings associations before grounds exist for the appointment of a conservator or receiver by the Office of Thrift Supervision.

The key elements of the 1986 policy statement, which the revised policy statement retains, are:

- o The cost to the FDIC of the assistance proposal clearly must be less than other available alternatives.
- o The proposal must provide for sufficient tangible capitalization.

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- o Continued service of all directors or officers serving in a policy-making role at the assisted institution will be subject to approval by the FDIC.
- o The financial effect on shareholders and creditors of the failing institution must approximate the effect that would have occurred had the assisted institution closed.

In addition to these requirements of the 1986 policy statement, the FDIC has determined that the following criteria are necessary to ensure least cost proposals for open assistance:

- o Assistance proposals will be considered within a competitive bidding process.
- o Institutions seeking assistance must agree to unrestricted due diligence by all potential acquirors pre-cleared by the FDIC.
- o Bidders must establish quantitative limits on indemnities and guarantees to permit the FDIC to accurately assess the costs of each proposal.

Savings associations applying for assistance under Section 13(k)(5) are required to meet all of the qualifying criteria in that section as well as the criteria in the revised policy statement on open assistance. However, for those thrifts, the FDIC will presume that current management is adequate, based on the determination of the Office of Thrift Supervision, but will retain discretion to review the merits of individual directors and senior officers.

Funding for assistance proposals until fiscal year 1992 may be provided by the Resolution Trust Corporation. Under the FDI Act, until the Savings Association Insurance Fund (SAIF) has adequate funding (in fiscal year 1992), the FDIC may request that the Resolution Trust Corporation (RTC), with RTC Oversight Board approval, provide necessary funds for SAIF financial operations.

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Under FIRREA, the FDIC is required to define "economically depressed region" in conjunction with proposals for assistance from SAIF members under Section 13(k)(5) of the FDI Act. Requests for such assistance are permitted under FIRREA before grounds exist for appointment of a conservator or receiver provided the SAIF member meets certain criteria. Under one of these criteria, the SAIF member's offices must be located in an economically depressed region. The FDIC issued an interim rule last week defining "economically depressed region" to include eight states: Alaska, Arizona, Arkansas, Colorado, Louisiana, New Mexico, Oklahoma and Texas.

To apply for assistance, interested parties should submit a written request to the Division of Supervision at the appropriate Regional Office of the FDIC. In addition, a copy of the request should be sent to the Assistance Transactions Section, Division of Supervision, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429.

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