



NEWS RELEASE

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FDIC, RTC INVESTIGATING 1,300 FAILED BANKS AND THRIFTS FOR POSSIBLE FRAUD OR ABUSE BY INSIDERS AND PROFESSIONALS

The Federal Deposit Insurance Corporation and the Resolution Trust Corporation are investigating possible claims against former officers, directors and other professionals at 1,300 failed banks and savings institutions, FDIC Chairman L. William Seidman told Congress today.

In testimony before the House Judiciary Committee's subcommittee on criminal justice, Mr. Seidman also said the agencies have filed more than 500 lawsuits against professionals for damages ranging from \$1 million to \$1 billion.

Mr. Seidman said the FDIC and the RTC recovered approximately \$100 million for professional liability claims in 1989. Settlements and judgments during the first half of 1990 will bring in more than \$200 million, "in excess of \$1 million per day in recoveries," he told the lawmakers.

Chairman Seidman outlined various programs the two agencies are using to prevent, detect and punish fraud and abuse by individuals and by financial institutions.

"Greedy and unscrupulous individuals, insiders and advisors or related parties must not be allowed to profit at the expense of the deposit insurance funds and the American taxpayer," he said.

When an insured bank or thrift institution fails, the FDIC or the RTC conducts an investigation of potential claims against officers, directors, employees, attorneys, accountants and other professionals employed by the closed institution. These investigations often lead to civil suits seeking

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money damages. The FDIC and the RTC also refer suspected criminal activity to the appropriate law enforcement agencies.

Mr. Seidman said that the FDIC currently is investigating potential professional liability claims against individuals associated with 550 closed banks and 350 closed thrift institutions. In addition, the RTC, which is managed by the FDIC, is investigating claims involving 400 thrifts. The RTC was created by Congress in August 1989 to take over savings institutions placed in conservatorship after January 1, 1989.

Much of the professional liability litigation now pending at the FDIC involves claims against former officers and directors ranging from fraud and insider abuse to grossly negligent failure to conduct or supervise a financial institution's affairs.

The FDIC also aggressively pursues claims under fidelity bonds that insure financial institutions against losses caused by fraudulent or dishonest employees. The agency's largest single recovery within the last year, for example, involved the settlement of a bond claim for \$60 million.

The FDIC and the RTC have contracted with approximately 150 law firms around the country to prosecute professional liability cases, under agency supervision.

Also at the hearing, Mr. Seidman testified in general support of pending legislation (H.R. 5050) that would give banking regulators and law enforcement agencies new tools to control bank and thrift fraud.

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