FEDERAL RESERVE

press release

Addresses

Burn

For Immediate Release October 8, 1974

Dr. Arthur F. Burns, Chairman of the Board of Governors of the Federal Reserve System, today issued the following statement concerning Franklin National Bank:

"The arrangements announced today represent a resolution of the long-standing difficulties surrounding Franklin National Bank that is very much in the public interest. Depositors, borrowers and other customers of Franklin will be able to continue to do business at the same locations by virtue of the merger agreement. Depositors will suffer no loss. Borrowers and other customers will have a full range of banking service available to them without interruption. The former offices of Franklin will open for business tomorrow at the usual time as offices of European-American. All of Franklin's depositors will automatically become depositors of European-American.

"The Federal Reserve, as lender of last resort, provided emergency assistance to Franklin beginning last May. By doing so, we kept Franklin's banking services available, prevented serious adverse consequences in financial markets both here and abroad, and provided the time necessary for the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve to work out a satisfactory permanent solution. The merger agreement announced today guarantees that banking service will be provided to Franklin's customers and the community through a strong institution. The interest of the public, the Federal

Government, the depositors and loan customers of Franklin are protected by these arrangements. The outcome constitutes the only viable means for resolving Franklin's difficulties consistent with the public interest."

-0-0-0

Background

Earlier this year, Franklin National reported poor operating earnings, and subsequently it reported substantial losses in its foreign exchange operations. The management of the holding company that controlled the bank--the Franklin New York Corporation--announced on May 10 that it would recommend passing the regular dividend payment on both common and preferred stock.

On May 12, the Federal Reserve announced that it would advance funds to Franklin as needed--so long as the bank remained solvent and within the limits of the collateral that could be supplied--if the bank experienced unusual liquidity pressures. Federal Reserve lending to Franklin was substantial thereafter, reaching a maximum of approximately $1.75 billion in early October.

Because of the size and complexity of the problem, a period of time was required to work out a permanent, satisfactory solution. Among the options studied by the regulatory authorities was possible continuation of Franklin as an independent bank. Merger with another institution emerged as the only acceptable route, however, for continuing the banking services provided by Franklin. Accordingly, Federal Reserve assistance was continued until a merger could be effectuated.

The Comptroller, in determining Franklin to be insolvent, designated the Federal Deposit Insurance Corporation as receiver for Franklin. An arrangement worked out with FDIC ensures the repayment of all Federal Reserve funds loaned to Franklin.

As receiver for Franklin National, the FDIC assumed the Federal Reserve loan and has agreed to repay it over the next three years as collateral supplied by Franklin is liquidated. FDIC will act as agent for disposition of the collateral which backed the loan to Franklin.

- 0 -