FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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RECENT BANK CLOSINGS

Public Statement of

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Committee on Banking and Currency
House of Representatives
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In accordance with the Committee's request, I appear today in connection with the activities of the Federal Deposit Insurance Corporation involving closed insured banks, with particular reference to the nineteen bank closings which have occurred since January 1, 1969. The basic information about these nineteen bank closings is as follows:

INSURED BANKS REQUIRING DISBURSEMENTS
BY FEDERAL DEPOSIT INSURANCE CORPORATION
FROM JANUARY 1, 1969 TO MARCH 1, 1971

1969

Name and Location of Closed Bank	Date of Closing	Number of Depositors' Accounts	Total Deposits (in thousands)	Classification of Bank*
The Rocky Mountain Bank Lakewood, Colorado	1-30-69	6,716	$ 8,107	NM
Citizens State Bank Alvarado, Texas	4-14-69	2,329	2,299	NM
The Morrice State Bank Morrice, Michigan	5-5-69	1,759	2,167	SM
The First State Bank Dodson, Texas	5-12-69	686	1,085	SM
The State National Bank Lovelady, Texas	5-28-69	2,030	3,814	N
First National Bank of Ursa Ursa, Illinois	8-20-69	1,655	1,798	N
The Big Lake State Bank Big Lake, Texas	8-25-69	2,642	4,432	NM
The First State Bank Aransas Pass, Texas	9-2-69	6,459	10,489	NM
The First National Bank of Coalville Coalville, Utah	10-3-69	3,254	6,002	N

*NM - State Bank not member of Federal Reserve System
SM - State Bank member of Federal Reserve System
N - National Bank

1970

Name and Location of Closed Bank	Date of Closing	Number of Depositors' Accounts	Total Deposits (in thousands)	Classification of Bank*
State Bank of Prairie City Prairie City, Iowa	2-22-70	1,651	$ 3,897	NM
The Peoples State Savings Bank Auburn, Michigan	4-18-70	8,068	9,940 (excludes $2,740 in dispute)	NM
Farmers Bank of Petersburg Petersburg, Kentucky	6-25-70	454	1,260	NM
Eatontown National Bank Eatontown, New Jersey	8-7-70	9,764	15,912	N
First State Bank of Bonne Terre Bonne Terre, Missouri	8-24-70	5,778	7,198	NM
City Bank of Philadelphia Philadelphia, Pennsylvania	9-3-70	1,940	8,829	NM
Berea Bank & Trust Company Berea, Kentucky	10-8-70	3,312	5,420	NM
1971				
Sharpstown State Bank Houston, Texas	1-25-71	27,300	66,771	NM
Birmingham Bloomfield Bank Birmingham, Michigan	2-11-71	40,100	57,695	NM
Farmers State Bank of Carlock Carlock, Illinois	2-17-71	1,101	2,077	NM

*NM - State Bank not member of Federal Reserve System
SM - State Bank member of Federal Reserve System
N - National Bank

The nineteen banks which closed during this 26-month period had 126,998 depositors with total deposits of $219,192,000. Thirteen were State banks, not members of the Federal Reserve System, four were national banks and two were State banks that were members of the Federal Reserve System. In nine of the closed bank cases, the deposit liabilities were assumed, with financial assistance from the Corporation, by existing or newly organized banks, resulting in no loss to depositors. In the remaining ten cases, FDIC paid depositors up to the insured amount set by the Congress. In all cases the Corporation acquired the assets of the closed banks in its own right or as the appointed receiver, and our Division of Liquidation is currently in the process of liquidating those assets. The proceeds of liquidation will be used to pay the claims of uninsured depositors and other general creditors, including the claims of the FDIC for reimbursement of its insurance payments or financial assistance. Any excess goes to subordinated creditors and stockholders.

With regard to the nineteen communities in which these closed banks operated, banking service was continued in fifteen by the assuming bank, by a new bank, by other banks in town, or by the opening of a branch office of an out-of-town bank. The four communities in which this did not occur are relatively small and within reasonable driving distance of other banks.

To place these nineteen bank closings in perspective, it should be remembered that there were 13,832 FDIC-insured banks in the country at year-end 1970, with total deposits of approximately $532.5 billion. Of the total number of such insured banks, 4,621 were national banks, 1,147 were State banks that are members of the Federal Reserve System and 8,064 were State banks not members of the Federal Reserve System. The nineteen failed banks since January 1, 1969 represent 0.00137 of the total number of insured banks and held about 0.00041 of their total deposits.

It should also be recognized that the Federal Deposit Insurance Corporation does not have authority to close any bank. An insured bank is closed only by its chartering authority: the Comptroller of the Currency in the case of national banks, or the appropriate state authority in the case of State banks. When this happens, the Corporation dispatches experienced liquidation personnel to the closed bank site at once in order to begin immediate preparations for the return of depositors' funds at the earliest possible time. It is mandatory that the Corporation serve as the receiver of all national banks and to serve as receiver of State banks when appointment is tendered.

FDIC has two basic alternatives to protect depositors when an insured bank has been closed:

1. It may pay off depositors up to the insured limitation of $20,000.
2. It may assist another insured bank in the community or a newly organized insured bank in assuming the deposit liabilities of the closed bank.

The second alternative provides 100% protection for all deposit accounts and has been utilized in 202 of the 492 insured banks which have failed since 1934, when the Corporation was established. As previously mentioned, this procedure was used in nine of the nineteen failures since January 1, 1969. When the first method is used, as it was in ten of the failures since January 1, 1969, the

Corporation begins the payment of insured deposits at the earliest possible time. This is usually within four to seven days after closing. Insured payments are made in all cases as soon as the records of the bank can be proved and the records and checks necessary for the payoff prepared.

The Corporation's Board of Directors determines which of these two alternatives to follow, but utilizes the second method only where it believes, on the basis of information available to it at the time the bank closes, that the prospective cost to the Corporation, after realizing the likely proceeds of liquidation, would be less than the cost to the Corporation through the payoff alternative. In addition, it is first necessary that there be an existing or newly organized bank that (a) is willing to enter into such a transaction, and (b) is acceptable to the appropriate chartering authority as well as to the FDIC.

It is the Corporation's procedure, when liquidating assets, to do so in an orderly manner giving due regard to the economic conditions of the area involved. All loans are acquired subject to their original terms and maturities; that is, the Corporation "steps into the shoes" of the closed bank and acquires, in the usual case, no greater rights than the bank had. The closing of a bank, therefore, does not cause such loans to mature or become immediately payable in full. Where the normal maturities of such loans would cause hardship to borrowers, orderly reduction programs are worked out, thereby minimizing as much as possible the economic effect of a closed bank on the community involved. In the interest of creditors and stockholders, however, the Corporation does insist on payment in full of all obligations owed to a closed bank.

With respect to the nineteen banks closed from January 1, 1969 to March 1, 1971, the following FDIC disbursements and liquidation recoveries have occurred in both assumption and payoff cases. The tables also indicate the Corporation's best current estimate of its eventual net loss.

ASSUMPTION TRANSACTIONS

Name and Location of Closed Bank	Disbursement by FDIC to 2-28-71	Liquidation Recoveries to 2-28-71	Estimated Net Loss to FDIC
Rocky Mountain Bank Lakewood, Colorado	$ 3,016,052.23	$ 2,761,155.14	None
The Morrice State Bank Morrice, Michigan	1,404,282.47	559,989.32	$ 52,320
The Big Lake State Bank Big Lake, Texas	2,352,517.91	2,314,448.59	None
The First State Bank Aransas Pass, Texas	7,490,175.67	5,087,761.45	322,891
The First National Bank of Coalville Coalville, Utah	3,207,447.25	3,236,552.85	None
The First State Bank of Bonne Terre Bonne Terre, Missouri	5,527,815.45	2,518,549.15	479,447
City Bank of Philadelphia Philadelphia, Pennsylvania	8,828,858.77	5,046,061.97	1,738,512
Berea Bank & Trust Company Berea, Kentucky	5,281,276.97	2,148,375.01	10,807
Birmingham Bloomfield Bank Birmingham, Michigan	103,367,736.24	12,148,427.11	Less than $10 million

PAYOFF TRANSACTIONS

Name and Location of Closed Bank	Disbursement by FDIC to 2-28-71	Liquidation Recoveries to 2-28-71	Estimated Net Loss to FDIC*
Citizens State Bank Alvarado, Texas	$ 1,893,763.42	$1,995,735.44	None
The First State Bank Dodson, Texas	988,698.22	909,525.24	$ 300,000
The State National Bank of Lovelady Lovelady, Texas	3,148,114.92	2,757,685.26	200,000
First National Bank of Ursa Ursa, Illinois	1,495,241.63	1,203,168.12	350,000
The State Bank of Prairie City Prairie City, Iowa	3,537,790.94	2,740,171.68	750,000
The Peoples State Savings Bank Auburn, Michigan	8,241,032.83	6,204,082.26	3,000,000
Farmers Bank of Petersburg Petersburg, Kentucky	1,157,543.84	387,985.92	525,000
Eatontown National Bank Eatontown, New Jersey	13,321,912.23	8,695,068.77	2,850,889
Sharpstown State Bank Houston, Texas	31,088,557.29	1,960,530.57	Too early to estimate
Farmers State Bank of Carlock Carlock, Illinois	1,688,561.85	150,715.60	Too early to estimate

*In payoff transactions, the FDIC becomes a general creditor for the amount of its insurance payments and receives the same proportionate distribution on its claim as depositors receive on their claims in excess of the insurance limit. In the past, this recovery has approximated 90% of the amount of the claim.

In only four of these closed banks has a distribution so far been made to general creditors, including the FDIC, beyond the payment of insured deposits. The percentage amount of these distributions is as follows: 75% in the case of Citizens State Bank, Alvarado, Texas; 30% in the case of The First State Bank, Dodson, Texas; 40% in the case of The State National Bank of Lovelady, Texas; and 55% in the case of State Bank of Prairie City, Prairie City, Iowa. Such distributions are frequently delayed until firm valuations can be placed on the total amount of all liabilities of the closed bank. In the past, as previously indicated, the average of all such distributions has approximated 90% of the total amount of such uninsured claims.

As to the reasons for the failure of these nineteen banks, mismanagement of various sorts was involved in all of them.

In four instances, financial irregularities involving the loan or deposit records of the bank were major causes of failure. Officers of the four banks involved have been indicted, and one conviction has already resulted.* In the remainder of the cases, weaknesses in loan portfolio management was a primary contributing cause of failure. Our review of these closings suggests that losses resulting from improper loans to officers, directors or owners of the closed banks or their affiliated interests were a major cause of failure in more than half of them. While the granting of these loans was not necessarily illegal, their overall volume and quality were beyond prudent limits and would not have been extended in a well-managed bank. In addition, losses on loans to borrowers outside the bank's normal lending area proved to be a significant factor in the failure of seven banks.

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*Officers of six of the other fifteen banks have also been indicted and in two of these cases convictions have been obtained.

In eight of the nineteen failures, misuse of brokered funds was a major contributing factor to the bank's closing. In all of these cases, it facilitated the loans previously described, the collectibility of which was sufficiently in question to lead eventually to the bank's closing.

Brokered deposits are deposits placed in a bank pursuant to an arrangement with a money broker and for which the depositor receives a premium over and above the interest paid by the bank on his deposit. In most instances of difficulty, there is loan financing linked to the placement of the brokered deposit, i.e., the deposits are made if certain loans are granted. A bank may be willing to enter into such a package transaction for a variety of reasons: to show larger deposit totals, to obtain additional loanable funds, or to increase its effective yield on its total loan portfolio. Brokered deposits, however, since they are not made by the borrower, cannot be used to offset the loan in the event the borrower defaults. Thus, the bank may find itself saddled with bad loans, or a liquidity problem, or both, when the deposit funds are withdrawn from the bank. Almost all of this financing contains potentials which can be extremely hazardous to the bank involved. At the same time, such transactions are difficult to supervise adequately in a timely way.

The Corporation has under review a number of proposals to reduce the hazards to operating banks which may result from self-dealing loans and brokered deposits. The fundamental problem will remain, however, one of imprudent bank management.

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For the nine year period from January 1, 1960 through December 31, 1968, 34 insured banks failed. There were 204,701 depositors in these banks having total deposits of approximately $243,525,000. The distribution of these banks by category was as follows:

No. of Failures	Class of Bank	Number of Depositors	Total Deposits (in thousands)
23	State Nonmember Banks	167,868	$ 167,439
9	National Banks	33,802	70,549
2	State Member Banks	3,031	5,537

Recoveries to depositors in these banks were as follows:

Method of Recovery	Number of Depositors	Amount Recovered (to nearest dollar)
Insured Payments	82,132	$ 63,497,087
By Security or Preference	160	18,639,245
By Offsets	3,905	4,935,232
Unclaimed but available	8,777	423,372
Deposit Assumptions	108,720	126,285,408
Payments by Receiver	-	17,892,157
Subtotal	203,694	231,672,501
Uninsured Claims Unpaid to 12-31-68	1,007	11,853,163
	204,701	$ 243,525,664

Disbursements by FDIC, along with actual and estimated recoveries, and our best current estimate of the net loss to FDIC in the 34 failed banks from January 1, 1960 to December 31, 1968 are as follows:

Total Disbursements	$ 82,535,027
Less Actual and Anticipated Recoveries	64,516,241
Estimated Net Loss to FDIC	$ 18,018,786

Approximately 99% of the number of all depositors have received full recovery and approximately 95% of the total dollar amount of their deposits was recovered. These figures are subject to further change as the active liquidations progress and further liquidating dividends are paid. The recovery of the total dollar amount shown at 95% is lower than the historical average primarily because of the San Francisco National Bank case in which there were uninsured deposits of approximately $20 million, on which liquidating dividends of only 52% have been paid to date.

Going back even further, the FDIC has made disbursements to protect depositors in 473 insured banks which failed between the date FDIC commenced operations in 1934 and December 31, 1968. The 473 banks had 1.645 million depositors with total deposits amounting to approximately $838.7 million. In meeting its obligations to depositors in these banks, FDIC disbursements and recoveries, actual or anticipated, have been as follows:

Total Disbursements	$435,682,000
Recoveries (actual or anticipated)	380,398,000
Estimated Net Loss	$ 55,284,000

Depositors in general have fared well in these 473 banks. From insurance payments, secured or preferred status, offsets, and liquidating distributions, 99.7% of the 1.645 million depositors received a full recovery. The aggregate of such payments amounted to 97.1% of the total deposits in these 473 banks.