

Statement No. 2

Aid to Failing Banks

February 14, 1986

The Comptroller of the Currency has recently proposed that failing agricultural banks be kept in operation by a combination of deferral of losses and direct financial assistance from the FDIC. We oppose unrealistic deferral of losses, but FDIC assistance may be an appropriate alternative to liquidating a bank or merging it into a healthy institution. Such an approach has merit when a turnaround of the institution appears possible and provided that it imposes appropriate penalties on stockholders, management, and uninsured depositors and other creditors. The FDIC should obtain an equity position in the bank that will allow it to recapture its outlay through sale of that equity if the bank becomes a viable entity.