SHADOW FINANCIAL REGULATORY COMMITTEE

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Statement of the Shadow Financial Regulatory Committee on FDIC Ownership of Continental Illinois Stock

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As a result of its rescue of Continental Illinois Bank in 1984, the FDIC now controls 26% of the company's stock. The Shadow Financial Regulatory Committee believes that it is appropriate in some cases for the FDIC to take an equity stake in failed bank transactions. However, sound public policy calls for the FDIC to sell that stake as soon as possible.

The Committee recommended such action in February 1988 (Policy Statement No. 27), supporting the FDIC's intention to dispose of its interest in Continental Illinois "as soon as practicable." It is inappropriate for the FDIC to hold the stock in the hope that its price would rise. Once the market has a sufficient information to value the stock of a recapitalized company, holding the stock is simply an attempt to outguess the market and bet on future price gains. As we noted in 1988, "losses are equally likely."

In the last year the FDIC turned down three bids for its remaining holdings of Continental Illinois stock. In the fall of 1989, it received a bid of $22 a share. In the spring of 1990, it received a bid of $15 a share, and recently it refused a bid of $7.875 a share. While the Committee is not passing judgment on the FDIC's rejection of these bids, these decisions demonstrate both a reluctance to sell assets and the risk inherent in holding assets for long periods of time.

The FDIC apparently fears it will be criticized if it sells at "too low" a price, or that prices will rise subsequent to its selling the assets. The FDIC was stung by criticism of its deal involving the sale of Bowery Savings Bank. The acquirors later resold Bowery at a substantial profit. We urge the FDIC to ignore second-guessing of deals that happen to result in profit to the other buyers.

Our concern transcends the FDIC's handling of Continental. An unwillingness to expose itself to second-guessing also underlies the reluctance of the RTC to sell assets at prevailing prices.