



Financial Stability Institute Seminar on Selected Issues in Financial Stability

Practical Aspects of Bank Resolution: Lessons for Maintaining Financial Stability

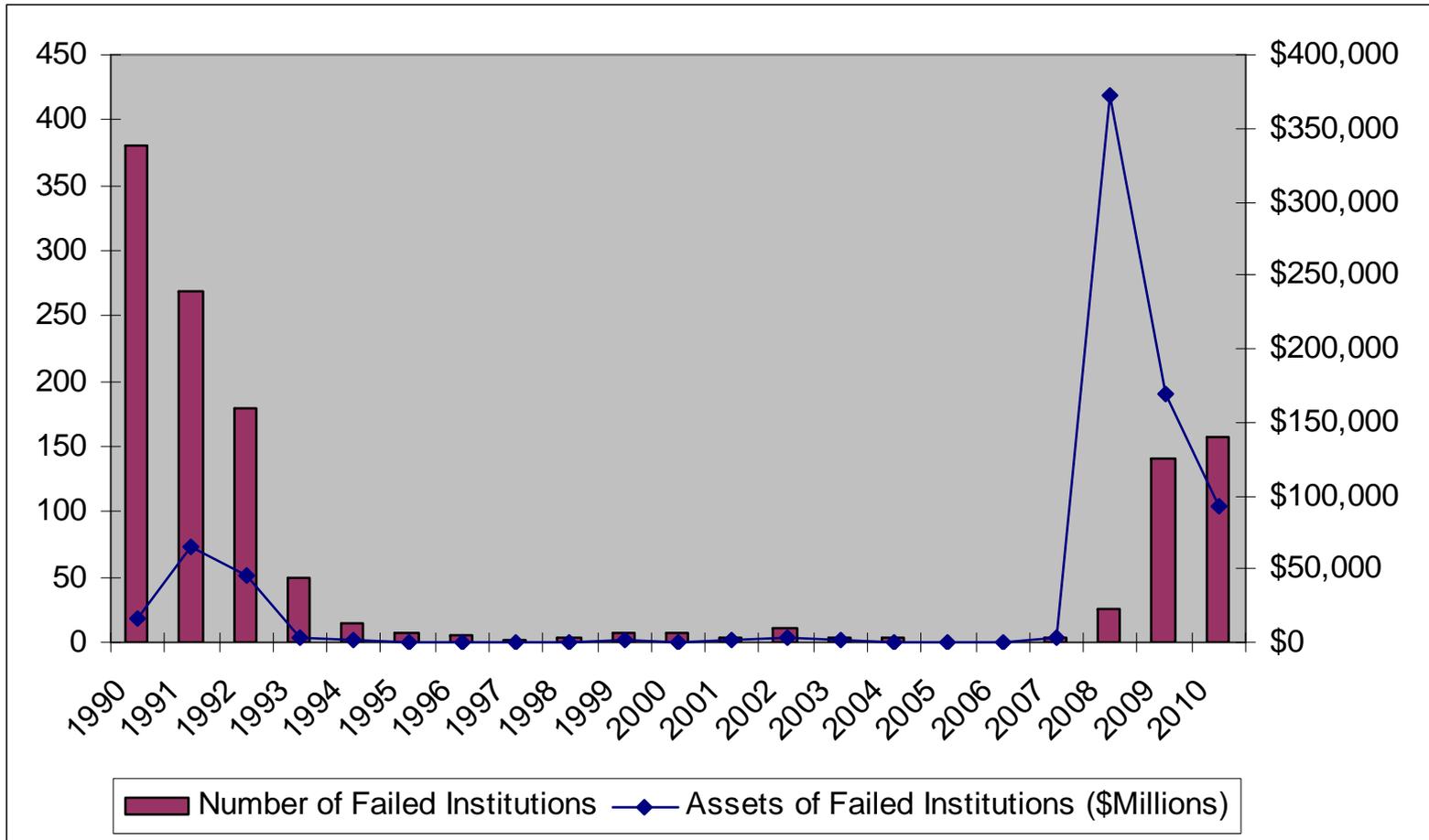
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Basel, Switzerland

Dual Role of the FDIC

- The FDIC wears two hats in a bank resolution
 - Deposit Insurer
 - Receiver, which conducts the receivership to:
 - Liquidate failed bank assets
 - Handle creditor claims
- A receivership is a bank resolution and liquidation regime that is separate from the judicial bankruptcy process
- The Receiver is a distinct legal entity and has special powers granted by law.

Failed Institutions and Assets 1990-2010



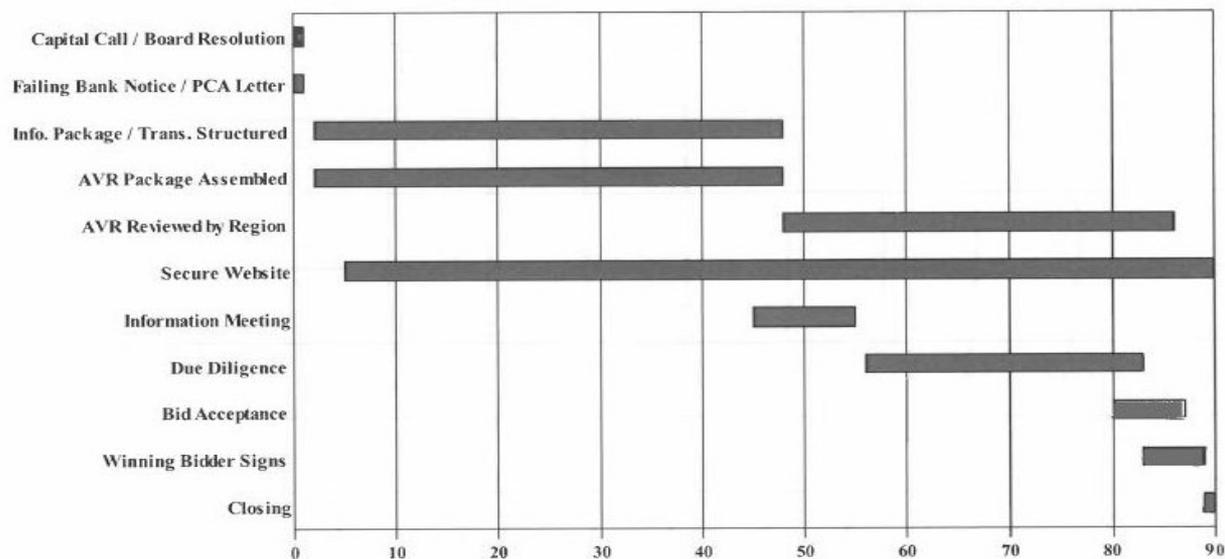
Planning—The Critical Element in a Resolution

- A prerequisite for any effective resolution is advance planning
- Advance planning can only be achieved when there is:
 - Access to supporting information
 - Cooperation with supervisor

Resolution Process

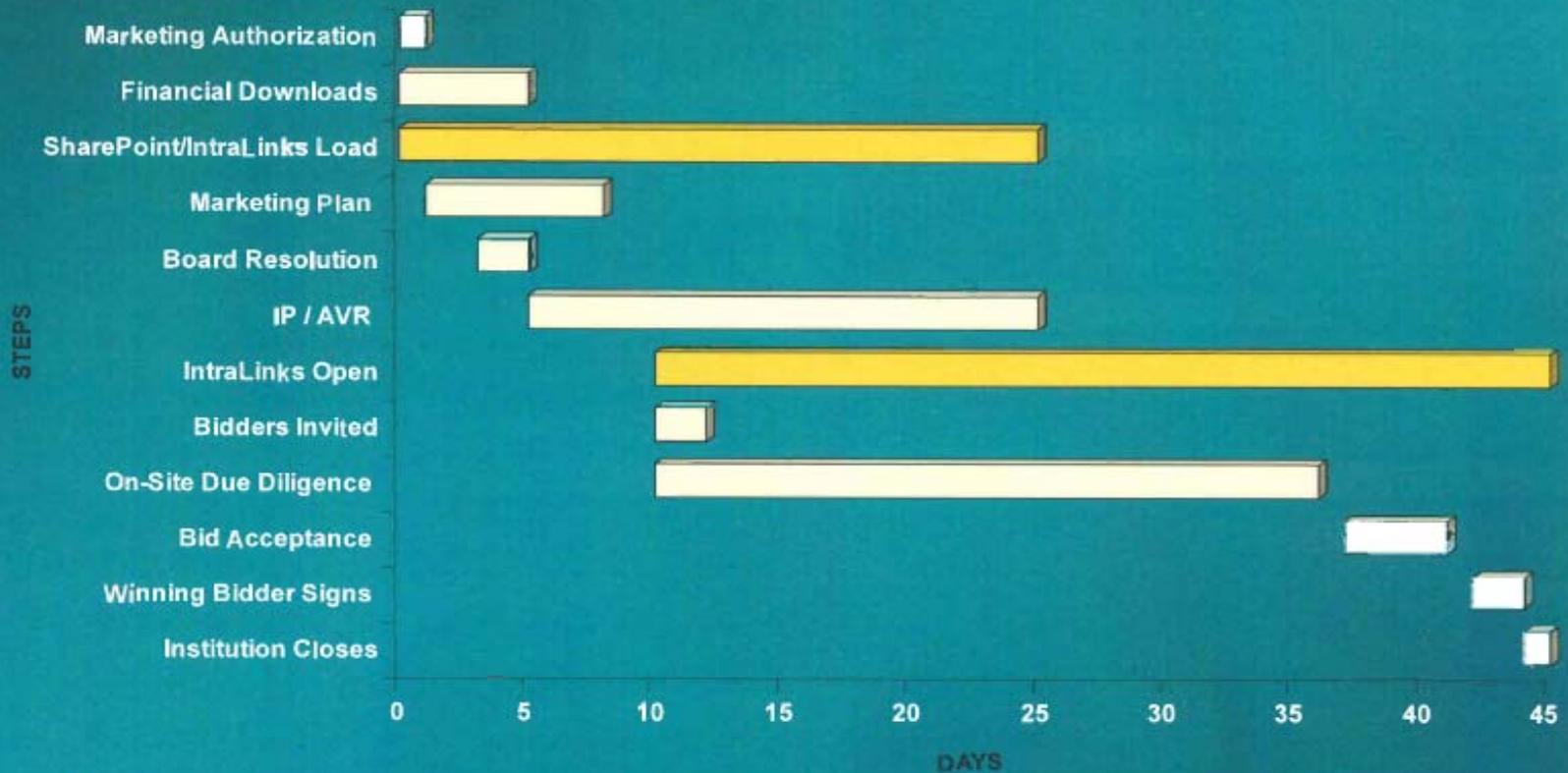
Principles of Resolutions and Receiverships Resolution Timeline

FDIC



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Franchise Marketing Timeline



Note: The timeline represents the actual sequence of marketing steps but start times and durations can vary significantly

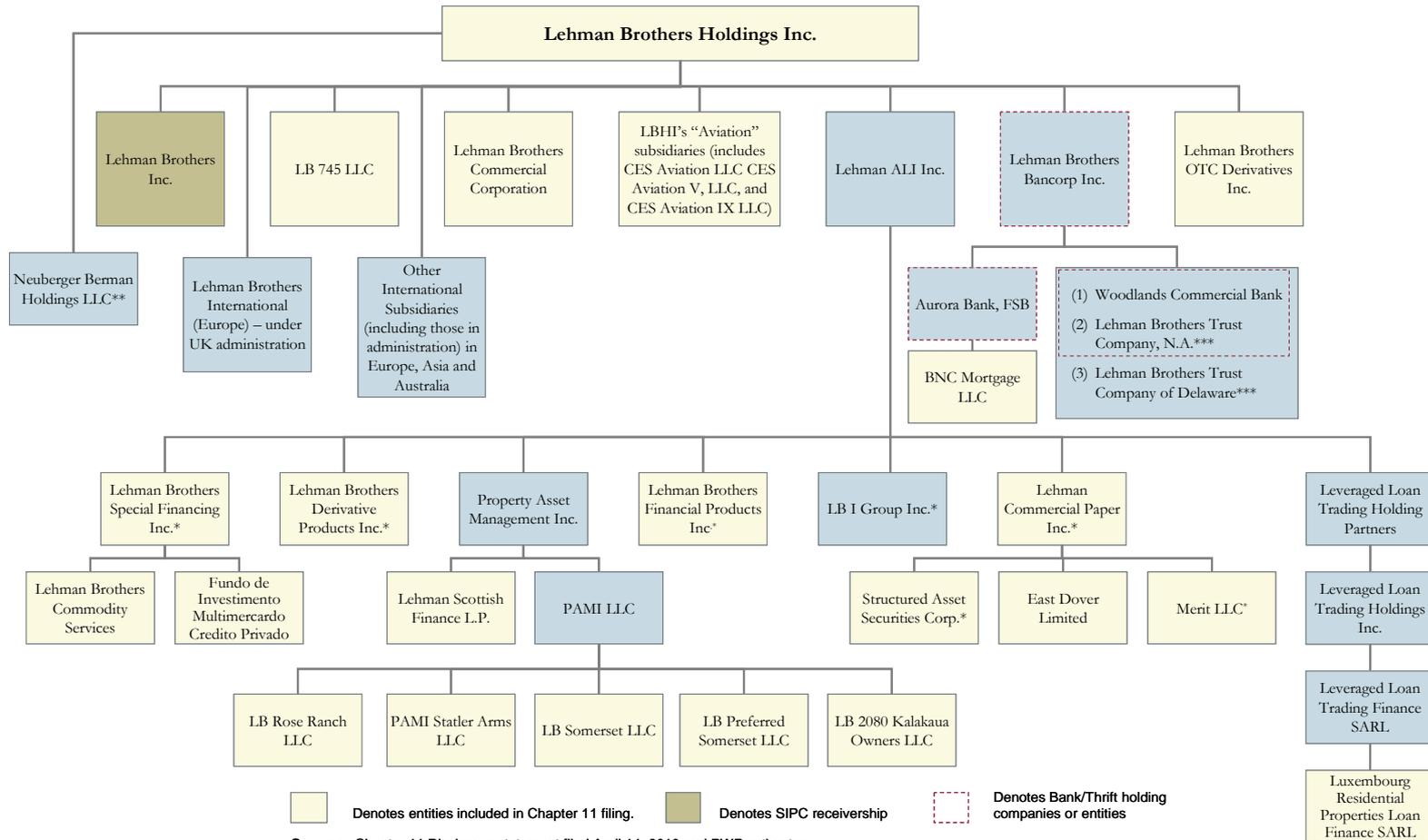
Common Resolution Options

- Purchase and Assumption (P&A)
 - Insured deposits only or all deposits
 - With or without loss share
 - Normally opens next business day
- Deposit Payout
 - Insured depositors are paid generally by check or paying agent
 - Deposit Insurance National Bank may be established to smooth the transition to finding a new bank
- Bridge Bank
 - Strips out the bad assets/operations of the failed bank
 - Reopens under a new charter and managed by the FDIC as receiver

FDIC Special Receivership Powers

- Independent of governmental or court orders
 - Can transfer assets and liabilities of the failed entity without outside approval
 - No court may take action to restrain or affect the exercise of powers of the FDIC as receiver
- All claimants must follow claims procedures as established by the FDIC
- May stay pre-existing lawsuits
- May terminate burdensome agreements
- Can enforce existing agreements
 - Existing agreements may not be terminated, accelerated or declared in default without the consent of the FDIC
 - Automatic stay is placed on derivatives contracts
 - FDIC has 24 hours to decide whether to allow the contracts to default or remain in force

Problems Due to Complexity and Interconnectedness



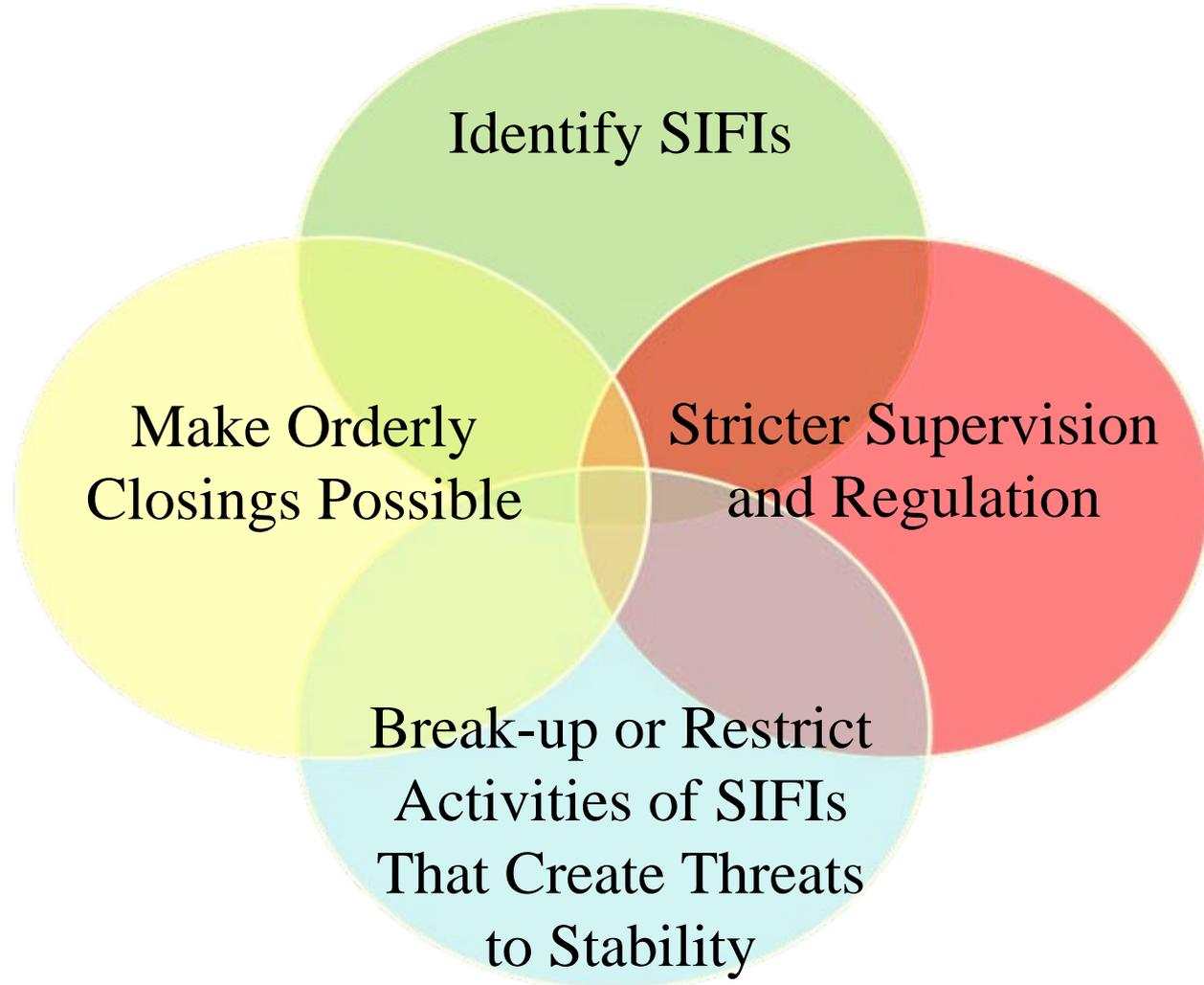
Source: Chapter 11 Disclosure statement filed April 14, 2010 and PWP estimates

Notes: * Indicates entity was transferred from Lehman Brothers Inc. to Lehman ALI Inc. on September 19, 2008.

** Includes certain entities whose assets were sold to a group comprised of portfolio managers, the management team and senior professionals on May 4, 2009.

*** Entities were contracted for sale to Neuberger Berman.

U.S. Regulation of Systemically Important Financial Firms (SIFIs)



Dodd-Frank Act: Resolution Authority for Large, Systemically Important Financial Firms

