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FDIC Rejects Two Bids for CrossLand, Puts Up $1.2 Billion of Its Own Capital

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The Federal Deposit Insurance Corp. rejected two bids to buy CrossLand Savings FSB and instead put up $1.2 billion of its own capital to save the ailing institution.

While FDIC Chairman William Taylor stopped short of saying the CrossLand action was a major policy departure, some banking analysts detected the beginning of a new FDIC strategy for tackling problem thrifts.

On Friday afternoon, the FDIC closed CrossLand's 49 New York-area branches for one hour, while the assets and deposits of CrossLand Savings FSB were transferred to a new federally chartered thrift called **CrossLand Federal Savings Bank.**

The FDIC's usual policy is to sell a failed institution to a healthy bank for a small premium, and then to indemnify the purchaser against loss on the failed bank's non-performing loan portfolio.

By injecting its own money and managing the "new" CrossLand, the agency is making a bold—and risky—bet that it will save money by trying to restore it to health rather than selling it in a more traditional transaction.

The FDIC's Mr. Taylor said two bids, believed to be from Chase Manhattan Corp. and Republic New York Corp., would have actually cost the FDIC more than the the current plan. "This is the least costly alternative available to us," he said. Of the $1.2 billion, about $800 million will be used to reserve for existing bad debts and the remainder will boost the thrift's capital.

The danger, said bank analysts, is that while the FDIC operates CrossLand, the market for its valued branch system continues to worsen.

"I question what they gain by delaying the sale," said banking analyst Bert Ely. "They're kidding themselves if they think the bids will get better."

Mr. Taylor said the government would operate CrossLand for a limited time, and he hoped to get what was once the country's 14th largest thrift in private hands in one or two years.

The FDIC also named H.F. Ahmanson & Co. executive vice president Richard A. Kraemer as chairman of the new bank.

The FDIC action does have some precedents. In 1984, the government decided to take over failing Continental Illinois Bank & Trust Co. and pump $4.5 billion into it. The rescue worked. After the FDIC sold its remaining block of stock in the Chicago bank last year, the rescue ended up costing about $800 million.

By rejecting outside bids for CrossLand, analysts said the government was sending signals to the banking community that it wouldn't settle for offers it felt were out of line with today's values.

"If the only alternative the FDIC has is to close it down and liquidate, then almost any bid makes sense," said William Isaac, who heads Secura Group, a Washington bank consulting firm, and who was FDIC chairman during the Continental Illinois bailout. After the CrossLand transaction, "bidders aren't going to feel that they have an option to buy things at fire-sale prices," he said.

With the federal takeover, CrossLand becomes the largest thrift whose failure can be blamed directly on the New York City real estate slump. CrossLand stockholders will essentially be wiped out and hold no stake in the new thrift.

Mr. Taylor said it was too early to tell how much CrossLand's failure would cost the government but that the number would be at least $500 million. "We hope it will be somewhere below $1 billion," he said.

As of year-end 1990, nearly half of CrossLand's loans were in higher risk real estate investments and acquisition, development and construction loans.

For the first three quarters of 1991, CrossLand posted losses of $308 million, while its asset base shrank from $11.7 billion to $9.2 billion. The assets shrank further with the November sale of 25 CrossLand offices in Washington and Oregon to Washington Mutual Savings Bank. At the end of the third quarter, CrossLand's nonperforming assets stood at $1.55 billion.

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