PRESS RELEASE

Federal Deposit Insurance Corporation

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Media Contact:
David Barr (202) 898-6992 or
dbarr@fdic.gov

FDIC Approves New Risk-Based Premiums for Deposit Insurance Changes will Reverse Decline in Reserve Ratio and Provide for a More Stable System

The Federal Deposit Insurance Corporation (FDIC) today adopted final regulations that implement the Federal Deposit Insurance Reform Act of 2005 passed by Congress earlier this year to create a stronger and more stable insurance system. Among the final regulations is a new rule on the risk-based assessment system that will enable the FDIC to more closely tie each bank's premiums to the risk it poses to the deposit insurance fund. In addition, the FDIC has new flexibility to manage the deposit insurance fund's reserve ratio within a range, which in turn will help prevent sharp swings in assessment rates that were possible under the design of the former system.

"Throughout the FDIC's push for deposit insurance reform, our goals have been to provide for long-term stability and less procyclicality in the deposit insurance system," said FDIC Chairman Sheila C. Bair. "This new system will enable the FDIC to achieve our goals, and also will add incentives for good risk management at insured institutions."

Under the new risk-based assessment system, the FDIC will evaluate each institution's risk based on three primary sources of information -- supervisory ratings for all insured institution, financial ratios for most institutions, and long-term debt issuer ratings for large institutions that have them. The ability to differentiate on the basis of risk will improve incentives for effective risk management and will reduce the extent to which safer banks subsidize riskier ones.

As a result of the final rulemaking, the FDIC today set the assessment rates that will take effect at the beginning of 2007. The new rates for nearly all of the industry will vary between five and seven cents for every $100 of domestic deposits.

As part of the Reform Act, Congress provided credits to institutions that paid high premiums in the past to bolster the FDIC's insurance reserves. As a result, the majority of banks will have assessment credits to initially offset all of their premiums in 2007.

"We are taking advantage of the sound banking environment to reverse the decline in the reserve ratio," said Chairman Bair. "In keeping with the intent of Congress, we are building up the fund in good times so it can be drawn down when problems arise, thus providing for long-term stability in premiums. Deposit insurance is an important benefit, and it is appropriate for banks to pay something for that benefit."

In related actions today that complete the required rulemakings under the reform law, the FDIC Board adopted regulations that:

- Set the designated reserve ratio for the deposit insurance fund during 2007 at 1.25 percent of estimated insured deposits;
- Make operational changes intended to enable the assessment system to react more quickly and more accurately to changes in an institution's risk profile;
- Require banks and savings associations to use the same FDIC sign and follow the same advertising rules; and
- Establish penalties for institutions that fail to pay their deposit insurance premiums in a timely manner.

The rules adopted today are in addition to previous regulations implementing the reform law, including those governing the one-time assessment credit, a temporary system of dividend payments to insured institutions, and an increase in the deposit insurance coverage for certain retirement accounts.

The FDIC has now adopted all of the regulations required by the Reform Act within the 270-day deadline set by Congress.