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FDIC to Tighten and Clarify Interest Rate Restrictions on Institutions That are Less Than Well-Capitalized

The Board of Directors of the Federal Deposit Insurance Corporation today proposed for comment a regulatory change in the way the FDIC administers its statutory restrictions on the deposit interest rates paid by banks that are less than Well Capitalized.

Prompt Corrective Action requires the FDIC to prevent banks that are less than Well Capitalized from soliciting deposits at interest rates that significantly exceed prevailing rates. The FDIC's current regulation ties permissible interest rates paid by these banks on deposits solicited nationally to the comparable maturity Treasury yield, and ties permissible interest rates on deposits solicited locally to undefined prevailing local interest rates.

The proposed regulation would define nationally prevailing deposit rates as a direct calculation of those national averages, as computed and published by the FDIC based on data available to it. Reliance on the Treasury yields in the regulation would be discontinued. In recognition of the blurring of local deposit market boundaries brought about by the Internet and other innovations, the proposed regulation would also establish a presumption that locally prevailing deposit rates equal the national rates published by the FDIC. This presumption could be overturned by evidence presented by banks to the FDIC.

"This proposed regulation would bring much needed concreteness to the administration of these statutory interest rate restrictions," said FDIC Chairman Sheila Bair. "Our expectation is that this additional concreteness would result in lower deposit rates being paid by a number of banks that are less than Well Capitalized and closer adherence to the statute."

The proposed rule applies only to the small minority of banks that are less than well capitalized. As of third quarter 2008, there were 154 banks that reported being less than Well Capitalized, out of more than 8,300 banks nationwide.