PRESS RELEASE

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FDIC Board of Directors Approves Notice of Proposed Rulemaking to Revise Deposit Insurance Assessments

The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) today approved a Notice of Proposed Rulemaking (NPR) to revise the deposit insurance assessment system for large institutions, which pose unique and concentrated risks to the Deposit Insurance Fund. FDIC Chairman Sheila Bair said, "Events during the past two years have made clear the need for improvement in how well and how quickly we recognize and charge for risk. This proposal is a significant improvement to how we do that."

Under the proposal, risk categories and long-term debt ratings would no longer be used. The FDIC would continue to use the supervisory ratings as a factor in measuring risk. The FDIC would replace the financial ratios currently used with a scorecard consisting of well-defined financial measures that are more forward looking and better suited for large institutions. The proposal also includes questions about how to incorporate other risk measures, like the quality of underwriting or risk management practices, in the future.

FDIC Chairman Sheila Bair said, "If we had used the proposed system during pre-crisis periods, it would have predicted the current rank ordering of large institutions much better than the system used now. The proposed system is fairer and less pro-cyclical because it charges for risk when it is assumed, and it provides incentives for institutions to avoid excessive risk during economic expansions."

The proposal would create two scorecards: one for large institutions and the other for highly complex institutions. A highly complex institution would be defined as an insured depository institution with greater than $50 billion in total assets that is fully owned by a parent company with more than $500 billion in total assets. The designation also would apply to a processing bank and trust company with greater than $10 billion in total assets. Each scorecard would have two components—a performance score and loss severity score—that are of particular interest to the FDIC as an insurer. Two scores would be combined to produce a total score, which would be translated into an initial assessment rate. Similar to the current system, the FDIC would retain an ability to make limited discretionary adjustments.

The proposal also would alter the assessment rates applicable to all insured depository institutions to ensure that the revenue collected under the proposed assessment system would approximately equal that under the existing assessment system. Chairman Bair said, "By better differentiating risk among large institutions, the proposal would reduce insurance assessments paid by lower-risk institutions—both large and small."

There will be a 60-day public comment period upon publication in the Federal Register.

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Attachment:
Notice of Proposed Rulemaking to Revise Deposit Insurance Assessments - PDF (PDF Help)
Board Memorandum - PDF (PDF Help)