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## FDIC Approves Final Rule of Assessments, Dividends, Assessment Base and Large Bank Pricing

The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) today approved a final rule on Assessments, Dividends, Assessment Base and Large Bank Pricing. The rule implements changes to the deposit insurance assessment system mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act and revises the assessment system applicable to large banks to eliminate reliance on debt issuer ratings and make it more forward looking. Dodd-Frank required that the base on which deposit insurance assessments are charged be revised from one based on domestic deposits to one based on assets.

In November 2010, the Board approved a proposed rule to change the assessment base from adjusted domestic deposits to average consolidated total assets minus average tangible equity and reissued a proposed rule revising the deposit insurance assessment system for large institutions that was approved by the FDIC in April 2010. The Board approved a proposed rule on Assessment Dividends, Assessment Rates and the Designated Reserve Ratio in October 2010. The final rule encompasses all of these proposed rules.

FDIC Chairman Sheila C. Bair said, "This final rule accomplishes Dodd-Frank's goal of better reflecting risks to the deposit insurance fund, while also providing the industry greater certainty regarding what rates will be over the long run. By changing the assessment base from deposits to assets minus tangible equity, the Act allows the FDIC to charge deposit insurance assessments on secured liabilities, which we have always protected. The rule should keep the overall amount collected from the industry very close to unchanged, although the amounts that individual institutions pay will be different."

The new large bank pricing system will result in higher assessment rates for banks with high-risk asset concentrations, less stable balance sheet liquidity, or potentially higher loss severity in the event of failure. Over the long term, large institutions that pose higher risk will pay higher assessments when they assume these risks rather than when conditions deteriorate.

According to Bair, "The new large bank pricing system in this final rule goes a long way towards reducing pro-cyclicality by calculating assessment payments using more forward-looking measures."

The final rule also retains the unsecured debt adjustment, which lowers an institution's assessment rate to recognize the buffer that long-term unsecured and subordinated debt provides the Deposit Insurance Fund. This adjustment is recalibrated in the final rule to ensure that the incentive for issuing this debt remains the same with the change to a larger assessment base.

"In light of the interest rate environment and the assessment rate benefit we provide, I encourage banks to issue more long-term unsecured debt to lock in low rates and provide greater stability to their funding," Bair said.

The final rule also revises the assessment rate schedule effective April 1, 2011, and adopts additional rate schedules that will go into effect when the Deposit Insurance Fund (DIF) reserve ratio reaches various milestones. These future rate schedules should accomplish the goals of maintaining a positive fund balance, even during periods of large fund losses, and maintaining steady, predictable assessment rates throughout economic and credit cycles.

"The financial crisis provided ample evidence of the need to improve the assessment system. The banking industry, the Deposit Insurance Fund and the financial system will benefit from this rule in both the short and long term," Bair added.

The FDIC sought comment on every aspect of the proposed rules. The FDIC received a total of 55 written comments on the October NPR, the Assessment Base NPR and the Large Bank NPR.

Attachment:
Final Rule of Assessments, Dividends, Assessment Base, & Large Bank Pricing - PDF (PDF Help)