PRESS RELEASE
Federal Deposit Insurance Corporation

September 27, 1994

FDIC ASKS WHETHER TO CHANGE THE WAY DEPOSIT INSURANCE PREMIUMS ARE SET

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today agreed to seek public comment on whether to change the "assessment base" used for the last half-century to determine how much an individual bank or thrift institution pays for deposit insurance coverage.

Broadly stated, the assessment base is defined as an institution's total domestic deposits as of the end of a quarter. Institutions currently pay risk-related insurance premiums within a range of 23 cents to 31 cents per $100 of these total domestic deposits.

The definition of the assessment base has remained substantially the same since 1935. Until recently, the FDIC did not have statutory authority to change the definition. However, the FDIC Improvement Act of 1991 gave the FDIC the ability to determine the assessment base, starting January 1, 1994. Although the FDIC has continued to use the traditional definition, the agency today issued an "advance notice of proposed rulemaking" that asks whether to redefine the assessment base and, if so, how. After comments are reviewed, the agency will determine whether to propose specific rule changes for additional public comment.

Among the key questions the agency is seeking guidance on is whether the FDIC should begin charging insurance premiums for deposits that U.S. banks have in their foreign offices and for certain non-deposit liabilities and "off-balance-sheet" items, as these also expose the FDIC's insurance funds to risks of loss. The agency also is asking whether assessments should be based on an average level of deposits held by the institution rather than quarter-end figures. The latter question is intended in part to address situations where institutions temporarily shift funds out of the assessment base at the end of a quarter solely to reduce their insurance payments.

FDIC Chairman Andrew C. Hove, Jr., said: "The world of financial services and deposit insurance is vastly different than it was 10 years ago, let alone 50 years ago. Changes in banking laws, technology, financial instruments and payment systems have clearly meant new benefits but also new risks to our banking institutions and to the FDIC's insurance funds. This review of how insurance risks are calculated and assessed is long overdue, and we urge all interested parties to give us their views on how the system could be improved."

Steven A. Seelig, the FDIC's Chief Financial Officer, added: "The goal of the FDIC in undertaking this review is not to raise additional money for the deposit insurance funds. But we do intend to make sure that the risks taken by our insured banks and savings institutions are more accurately accounted for in setting deposit insurance premiums. The result, for many individual institutions, could be insurance payments going up or down."

Comments on the FDIC's notice will be accepted for 120 days after it appears in the Federal Register.