PRESS RELEASE

Federal Deposit Insurance Corporation

November 14, 1995

FDIC AGAIN LOWERS INSURANCE PREMIUMS FOR MOST BANKS, MAKES NO CHANGE IN RATES FOR SAVINGS ASSOCIATIONS

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today voted to reduce the deposit insurance premiums paid by most banks and to keep existing assessment rates intact for savings associations.

Under the new rate structure for the Bank Insurance Fund (BIF), assessment rates will be lowered by four cents per $100 of domestic deposits, starting in January of 1996. Given the four cent reduction announced today, the highest-rated institutions (approximately 92 percent of the nearly 11,000 BIF-insured banks) will pay the statutory annual minimum of $2,000 for FDIC insurance. Rates for all other institutions will be reduced by four cents per $100 as well, leaving a premium range of three to 27 cents per $100 instead of the current four to 31 cents per $100.

The average assessment rate is expected to decline to approximately 0.43 cents per $100, versus the current average assessment rate of 4.4 cents per $100. The lowest average assessment rate for banks previously was 3.13 cents per $100 in both 1962 and 1963.

FDIC Chairman Ricki Helfer said: "Given the historically high balance in the Bank Insurance Fund, the health of the banking industry, the low projected losses to the fund and the strength of the economy, the FDIC has adopted the lowest average assessment rate in the more than 60-year history of federal deposit insurance for banks. We estimate that this change alone will save the banking industry about $946 million per year."

Chairman Helfer explained that, although an effective assessment rate of four to five cents per $100 of domestic deposits is appropriate over the long run, the FDIC Board had to balance several requirements in setting insurance rates. They included: (1) the long-run funding needs of the BIF; (2) the statutory requirement to maintain a risk-based deposit insurance system; and (3) the statutory requirement to maintain the BIF reserve ratio at the target ratio of 1.25 percent, or $1.25 for every $100 of estimated insured deposits. The BIF reserve ratio was approximately 1.29 percent as of June 30, 1995, and it is likely to have increased since then, to approximately 1.30 percent.

"Based on these factors," Chairman Helfer noted, "the Board concluded that under current conditions the highest-rated institutions should begin paying only the minimum assessment required by law of just $2,000 per year.

This does not mean that the highest-rated institutions pose near-zero risk to the insurance fund. It instead recognizes that banks have made significant payments to the Bank Insurance Fund in recent years -- in the nature of prepaid insurance -- that have been enough to take the fund's balance above $25 billion, the largest Bank Insurance Fund balance in the history of the FDIC."

The FDIC approved the four-cent reduction in BIF rates using the process established by the Board in August to change rates within a five-cent range without having first to seek public comment. The new BIF rate structure retains the current rate spread of 27 cents per $100 between the highest- and lowest-rated institutions, as well as the existing spreads among the other "cells" in the assessment rate matrix.

Institutions insured by the Savings Association Insurance Fund (SAIF) will continue paying premiums on a risk-related basis of 23 cents per $100 to 31 cents per $100. The average rate is expected to be 23.7 cents per $100.

SAIF-insured institutions will continue to pay higher rates than BIF- insured banks because the SAIF remains seriously undercapitalized. At the end of the second quarter of 1995, the SAIF had a balance of $2.6 billion, or about 37 cents in reserve for every $100 of insured deposits, and needed an additional $6.27 billion to be fully capitalized. As of September 30, 1995, the SAIF reached a balance of $3.1 billion, partly due to lower loss expectations and the recovery of loss reserves previously set aside. However, at the current pace and under reasonably optimistic assumptions, the SAIF remains unlikely to reach the minimum reserve ratio of 1.25 percent before year 2002.

"The SAIF continues to be significantly underfunded, and this problem must be addressed before thrift premiums can be lowered," Chairman Helfer said. "Congress currently is working on legislation that would address the SAIF's problems. Until that legislation becomes the law, the FDIC Board has no alternative but to keep SAIF assessment rates unchanged." Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 12,000 banks and savings associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed.