PRESS RELEASE
Federal Deposit Insurance Corporation

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FDIC 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 significantly reduce the deposit insurance premiums paid by most banks but to keep existing assessment rates intact for savings associations. The decision closely resembles a proposal issued for public comment earlier this year. The reduction in premium rates for banks is required by current law based on the anticipated recapitalization of the Bank Insurance Fund (BIF).

FDIC Chairman Ricki Helfer said: "The banking industry in recent years has regained its health and recapitalized its insurance fund with billions of dollars in insurance premiums. Well-managed, well-capitalized banks are to be commended for their achievements. As soon as recapitalization of the Bank Insurance Fund is confirmed, these banks will enjoy greatly reduced insurance premiums."

Chairman Helfer added that the new rate structure "is a reflection of the strength of the industry, the strength of the Bank Insurance Fund, and the commitment of the FDIC to reward well-run institutions and give weaker institutions an incentive to improve."

Under the new rate structure, the best-rated institutions insured by the Bank Insurance Fund will pay four cents per $100 of domestic deposits, down from the current rate of 23 cents per $100. The weakest institutions will continue to pay 31 cents per $100. Approximately 92 percent of the nearly 11,000 BIF-insured institutions would pay the lowest rate. The average assessment rate is expected to be approximately 4.4 cents per $100, versus the current 23.2 cents per $100. This translates to industry-wide savings of about $4.4 billion per year.

Chairman Helfer said that widening the spread between the rates paid by the strongest and the weakest BIF-insured institutions (eight basis points under the current system, 27 basis points under the new one) promotes the fundamental goals of a risk-related insurance system. "The wider range of insurance rates gives weak banks a big incentive to get healthy and encourages all banks to avoid unnecessary risk-taking," she said.

Current law requires the FDIC to charge BIF-member banks an average assessment rate of 23 cents per $100 of domestic deposits until the fund is recapitalized with reserves of $1.25 for every $100 of estimated insured deposits (or a reserve ratio of 1.25 percent). The latest FDIC projections indicate that the BIF likely was recapitalized during the second quarter of 1995.

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 pay a higher rate than BIF-insured banks because the SAIF remains seriously undercapitalized. At the end of the first quarter of 1995, the SAIF had a balance of only 0.31 percent of insured deposits and needed an additional $6.6 billion to be fully capitalized. At the current pace and under reasonably optimistic assumptions, the SAIF is unlikely to reach the minimum reserve ratio of 1.25 percent before the year 2002.

"Although the thrift industry is relatively healthy," Chairman Helfer said, "its deposit insurance fund has major problems that must be addressed before SAIF premium rates can be lowered. First, the SAIF is severely undercapitalized. Second, starting this past July 1, the SAIF faces new responsibilities and potential costs associated with resolving failed thrifts. Third, nearly half of the SAIF's assessments continue to be assigned to the federal cleanup of the savings and loan industry crisis. "While today's action by the FDIC Board significantly lowering bank premiums once the BIF is recapitalized is required by law, it nevertheless results in a substantial premium differential between BIF and SAIF members. Deposit migration from the SAIF to the BIF in response to the very real economic incentive of such a differential is likely to lead to a further structural weakening of the SAIF.

"The FDIC remains committed to working with Congress, the Administration and other financial regulators in implementing a fair and comprehensive solution to the problems facing savings associations and their insurance fund. It is important, however, that ancillary issues presented by a merger of the deposit insurance funds not be allowed to delay immediate resolution of the financial difficulties of the SAIF."

The new BIF assessment rates will apply from the first day of the month after the BIF is recapitalized. The soonest the recapitalization of the BIF can be confirmed is in early September, when the agency finishes processing banks' "Call Reports" (quarterly Reports of Condition and Income) for the period ended June 30, 1995. Assuming that the BIF recapitalized during the second quarter of 1995, BIF members that have overpaid their assessments based on the newly-adopted premium rate schedule can expect to receive a refund of any overpayment plus interest.

In connection with the new rate schedule, the FDIC Board established a process for quickly raising or lowering all rates for BIF-insured institutions if changing conditions warrant a timely change. Under this new system, the Board would have the flexibility to adjust the entire BIF assessment rate schedule twice a year without having to seek public comment first, but only within a range of no more than five cents per $100 above or below the premium schedule adopted.