PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC PROPOSES CUTS IN DEPOSIT INSURANCE PAYMENTS FOR MOST BANKS, NO CHANGES YET IN RATES FOR SAVINGS ASSOCIATIONS

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today issued for public comment substantive changes in its risk-related insurance premium system, including a significant reduction in the rates paid by well-capitalized and well-managed banks. The Board proposed no change at this time in the insurance rates paid by savings associations.

FDIC Chairman Ricki Tigert Helfer said: "There are two fundamental goals of risk-based premiums. First, to maintain a strong insurance fund that is prepared to handle losses. Second, to influence behavior by rewarding well-run institutions and encouraging weak ones to improve. The FDIC's proposal to reduce the premiums paid by banks recognizes the strong health of the banking industry and the substantial payments they will have made to recapitalize fully the Bank Insurance Fund."

Currently, the best-rated banks and thrifts pay 23 cents per $100 of domestic deposits while the weakest pay 31 cents per $100. However, as the Bank Insurance Fund (BIF) is rapidly approaching its target level of reserves and the banking industry is having record earnings, the FDIC Board at an open meeting today proposed to lower assessment rates for all but the riskiest BIF-insured institutions.

Under the proposal, the best-rated institutions (about 90 percent of the nearly 11,000 BIF-insured institutions) would pay four cents per $100 of domestic deposits, a substantial reduction from their current 23 cents per $100. The weakest institutions would continue to pay 31 cents per $100, thereby significantly widening the spread between the lowest and the highest rates. If adopted, BIF-insured institutions would pay an average of 4.5 cents per $100, compared to the current average of 23.3 cents per $100. That would be the lowest average insurance payment since 1980, when the impact of rebates brought the effective rate down to 3.7 cents per $100. Industry-wide, premiums would be reduced nearly $5 billion.

"A premium reduction is conceivable at this time only because of the efforts of the banking industry to make their individual institutions stronger and to make their insurance fund stronger," Chairman Helfer said. "In terms of earnings, capital and problem assets, banks have never been in better shape, and they have paid very high insurance premiums to recapitalize the fund to the level mandated by the Congress."

In addition, the FDIC Board is considering a process for adjusting BIF rates quickly in response to changing conditions. Under the proposal, the entire assessment rate schedule could be raised or lowered twice a year without first seeking public comment, but only within a range of five cents per $100.

Current law requires the BIF to have an average assessment rate of 23 cents per $100 until the fund reaches reserves of $1.25 for every $100 of insured deposits. As of the third quarter of 1994, the BIF had a balance of $19.4 billion, representing a reserve ratio of $1.03 per $100 of insured deposits. The FDIC projects that the $1.25 per $100 reserve ratio will be reached between May 1 and July 31, 1995, much faster than originally anticipated only three years ago. When that happens, the 23 cents per $100 average assessment rate will no longer be required because the Bank Insurance Fund will hold reserves for losses of nearly $25 billion.

FDIC staff also are reviewing the nine risk classifications now used to see if they can be improved or expanded on, but Chairman Helfer said that until that study is completed, the Board would not make major changes.

As proposed, new assessment rates will not be implemented until it can be verified that the BIF has been recapitalized, using the quarterly reports of condition and income (Call Reports) provided by insured institutions. For the quarter ending June 30th, these data will be available by mid-September. If BIF recapitalization can be verified prior to the quarterly insurance payment due September 30, 1995, that fee would be modified to reflect new rates. Under this scenario, it is likely that some BIF members would have overpaid their insurance assessment and would be provided a refund plus interest.

Separately, the FDIC Board today proposed to retain the existing assessment rate schedule for the Savings Association Insurance Fund (SAIF) because the capitalization of that fund, in contrast to the BIF, is occurring more slowly. Under the existing SAIF assessment rate schedule, which averages 24 cents per $100, the fund is projected to be capitalized in the year 2002.

The FDIC has the authority to reduce SAIF assessment rates to 18 cents for every $100 of domestic deposits until January 1, 1998, but then, under the FDIC Improvement Act of 1991 (FDICIA), the average rate must remain at 23 basis points or higher until the SAIF is capitalized. However, reducing the average rate to 18 basis points is projected to delay capitalization until 2004.

The SAIF had an estimated balance of under $2.0 billion as of the third quarter of 1994, which is a reserve ratio of 26 cents per $100 of insured deposits. The SAIF also will assume from the Resolution Trust Corporation the responsibility for resolving failed thrifts starting July 1, 1995.

"The SAIF now has under $2 billion in reserves but needs approximately $7 billion to be fully capitalized," Chairman Helfer said. "Although the thrift industry is relatively healthy now, the SAIF fund balance and the requirement that future thrift resolutions be borne by the SAIF suggest this may not be the time to reduce SAIF insurance rates."

She also stated: "I am sensitive to the potential impact of a substantial premium differential between BIF-insured and SAIF-insured institutions, and the FDIC Board has asked for comments on that issue. The law requires us to set BIF and SAIF premium rates independently."

In light of the proposed changes to BIF assessment rates, the FDIC also is seeking public comment on its plan to keep SAIF rates unchanged. Written comments on the two proposals will be accepted for 60 days after they are published in the Federal Register. Tables summarizing the current and proposed rate changes for BIF-insured institutions are attached.