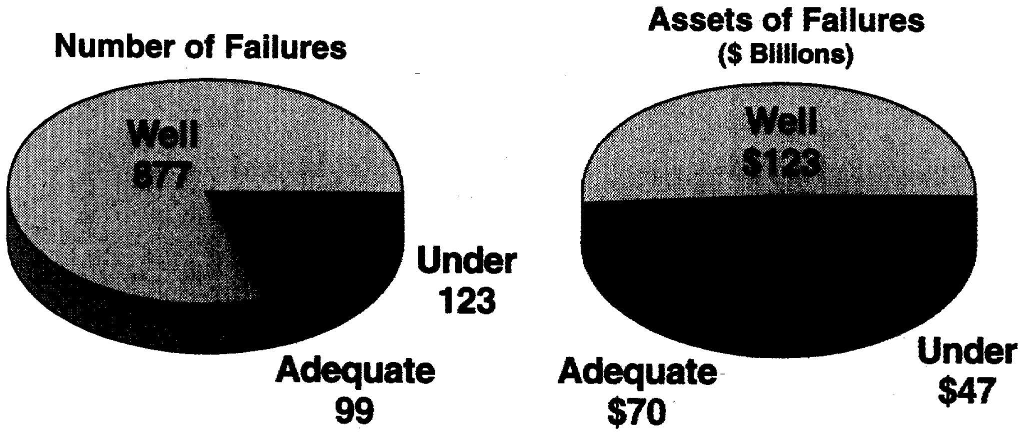
Figure 2

Failed BIF Members, 1987-1994: 3-Year Lagged Capital Category



Note: For purposes of this chart, "adequately-capitalized" institutions are those with equity-to-assets ratios of four percent or more. For "well-capitalized" the cutoff is five percent.

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12 CFR Part 327

Assessments; Retention of Existent Assessment Rate Schedule for SAIF-Member Institutions

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Confirmation of assessment rate.

SUMMARY: On November 14, 1995, the Board of Directors of the FDIC (Board) adopted a resolution to retain the existing assessment rate schedule applicable to members of the Savings Association Insurance Fund (SAIF) for the first semiannual assessment period of 1996. As a result of this action, the SAIF assessment rate to be paid by depository institutions whose deposits are subject to assessment by the SAIF will continue to range from 23 cents per $100 of assessable deposits to 31 cents per $100 of assessable deposits, depending on risk classification.

EFFECTIVE DATE: January 1, 1996, through June 30, 1996.

FOR FURTHER INFORMATION CONTACT: James R. McFadyen, Senior Financial Analyst, Division of Research and Statistics, (202) 898–7027; Claude A. Rollin, Senior Counsel, Legal Division, (202) 898–3985; or Valerie Jean Best, Counsel, Legal Division, (202) 898–3812; Federal Deposit Insurance Corporation, Washington, D.C. 20429.

SUPPLEMENTARY INFORMATION:

I. Summary

Based upon the results of its semiannual review of the capitalization of the SAIF and of the SAIF assessment rates, the Board has determined to retain the existing assessment rate schedule applicable to SAIF-member institutions for the first semiannual assessment period of 1996 so that capitalization of the SAIF is accomplished as soon as possible. As a result of this action, the SAIF assessment rate to be paid by institutions whose deposits are subject to assessment by the SAIF will continue to range from 23 cents per $100 of assessable deposits to 31 cents per $100 of assessable deposits, depending on risk classification.

Despite the general good health of the thrift industry, the SAIF is not in good condition and it remains significantly undercapitalized. On June 30, 1995, the SAIF had a balance of $2.6 billion, or about 37 cents in reserves for every $100 in insured deposits. An additional $6.3 billion would have been required on that date to fully capitalize the SAIF to its designated reserve ratio (DRR) of 1.25 percent of estimated insured deposits. As of September 30, 1995, the SAIF balance had grown to $3.1 billion, although the reserve ratio for that date cannot be determined until insured deposits as of September 30 become available in December. At the current pace, and under reasonably optimistic assumptions, the SAIF would not reach the statutorily mandated DRR until at least the year 2002. The failure of a single large SAIF-insured institution or several sizeable institutions or an economic downturn leading to higher than anticipated losses could render the fund insolvent. While the FDIC is not currently predicting such thrift failures, they are possible.

The main source of income for the SAIF is assessments. A sizable portion of the SAIF's ongoing assessments (up to $793 million annually) is diverted to meet interest payments on obligations of the Financing Corporation (FICO). Reducing assessment rates to the lowest minimum average rate permitted by law—18 basis points—is presently projected to delay SAIF capitalization until 2005, and it would cause a FICO shortfall as early as 1996. Moreover, there will still be a significant differential between assessment rates of the Bank Insurance Fund (BIF) and the SAIF even if the Board reduces the SAIF assessments to the minimum average allowed by statute.

II. Statutory Provisions Governing SAIF Assessment Rates

A. Section 7 of the Federal Deposit Insurance Act

Section 7(b) of the Federal Deposit Insurance Act (FDI Act) governs the Board's authority for setting assessments for SAIF members. 12 U.S.C. 1817(b). Section 7(b)(1) (A) and (C) require that the FDIC maintain a risk-based assessment system, setting assessments based on (1) the probable risk to the fund posed by each insured depository institution taking into account different categories and concentrations of assets and liabilities and any other relevant factors; (2) the likely amount of any such loss; and (3) the revenue needs of the fund. Section 7(b)(2)(A)(iii) further directs the Board to impose a minimum assessment on each institution not less than $1,000 semiannually. The Board must set semiannual assessments and the DRR for each deposit insurance fund independently. FDI Act section 7(b)(2)(B).

The Board must set semiannual assessments for SAIF members to maintain the reserve ratio at the DRR or, if the reserve ratio is less than the DRR, to increase the reserve ratio to the DRR. FDI Act section 7(b)(2)(A)(i). The reserve ratio is the dollar amount of the fund balance divided by estimated SAIF-insured deposits. The DRR for the SAIF is currently 1.25 percent of estimated insured deposits, the minimum level permitted by the FDI Act. In setting SAIF assessments to achieve and maintain the DRR, the Board must consider the SAIF's expected operating expenses, case resolution expenditures and income, the effect of assessments on members' earnings and capital, and any other factors that the Board may deem appropriate. FDI Act section 7(b)(2)(D).

Before January 1, 1998, if the SAIF remains below the DRR, the total amount raised by semiannual assessments on SAIF members may not be less than the amount that would have been raised if section 7(b) as in effect on July 15, 1991 remained in effect. See FDI Act section 7(b)(2) (E) and (F). The minimum rate required by section 7(b) as then in effect was 0.18 percent.

Beginning January 1, 1998, all minimum assessment provisions applicable to BIF members also apply to SAIF members. Under these provisions, if the SAIF remains below the DRR, the total amount raised by semiannual assessments on SAIF members may not be less than the amount that would have been raised by an assessment rate of 0.23 percent. See FDI Act section 7(b)(2)(E).

The Board thus has the legal authority to reduce SAIF assessment rates to a minimum average of 18 basis points until January 1, 1998. Beginning January 1, 1998, however, the minimum average rate must be 23 basis points until SAIF achieves its DRR of 1.25 percent.

In setting semiannual assessments for members of the SAIF, beginning January 1, 1998, if the reserve ratio of the SAIF is less than the DRR, the Board must set semiannual assessments either, (a) at rates sufficient to increase the reserve ratio to the DRR within 1 year after setting the rates, *or* (b) in accordance with a schedule for recapitalization, adopted by regulation, that specifies target reserve ratios at semiannual intervals culminating in a reserve ratio that is equal to the DRR not later than 15 years after implementation of the schedule. FDI Act section 7(b)(3). Section 8(h) of the Resolution Trust Corporation Completion Act (RTCCA), Pub. L. No. 103–204, 107 Stat.2369, 2388, amended section 7(b)(3) to allow the Board, by regulation, to amend the SAIF capitalization schedule to extend the date by which the SAIF must be capitalized beyond the 15-year time limit to a date which the Board determines will, over time, maximize the amount of semiannual assessments received by the SAIF, net of insurance losses incurred. FDI Act section 7(b)(3)(C).

Amounts assessed by the FICO against SAIF members must be subtracted from the amounts authorized to be assessed by the Board. FDI Act section 7(b)(2)(D).

In order to achieve SAIF capitalization, the Board adopted a risk-related assessment matrix in September 1992 (see Table 1) which has remained unchanged.

TABLE 1.—SAIF-MEMBER ASSESSMENT RATE SCHEDULE FOR THE SECOND SEMIANNUAL ASSESSMENT PERIOD OF 1995

[Basis points]

Capital group	Supervisory subgroup		
	A	B	C
Well capitalized	23	26	29
Adequately capitalized	26	29	30
Undercapitalized	29	30	31

B. Statutory Provisions Governing FICO Assessments

FICO was originated by section 302 of the Competitive Equality Banking Act of 1987 (CEBA), Pub. L. No. 100–86, 101 Stat. 552, 585, which added section 21 to the Federal Home Loan Bank Act (FHLB Act).[1] FICO's assessment authority derives from section 21(f) of the FHLB Act, 12 U.S.C. 1441(f). As amended by section 512 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Pub. L. No. 101–73, 103 Stat. 183, 406, section 21(f) requires that FICO obtain funding for ''anticipated interest payments, issuance costs, and custodial fees'' on FICO obligations from the following sources, in descending priority order: (1) FICO assessments previously imposed on savings associations under pre-FIRREA funding provisions; (2) ''with the approval'' of the FDIC Board, assessments against SAIF member institutions; and (3) FSLIC Resolution Fund (FRF) receivership proceeds not needed for the Resolution Funding Corporation (REFCORP) Principal Fund.

Under section 21(f)(2), FICO assessments against SAIF members are to be made in the same manner as FDIC insurance assessments under section 7 of the FDI Act. The amount of the FICO assessment—together with any amount assessed by REFCORP under section 21B of the FHLB Act—must not exceed the insurance assessment amount authorized by section 7.[2] Section 21(f)(2) further provides that FICO ''shall have first priority to make the assessment,'' and that the amount of the insurance assessment under section 7 is to be reduced by the amount of the FICO assessment. One important effect of the FICO assessment is to exacerbate any premium differential that may exist between BIF and SAIF assessment rates.

III. Problems Confronting the SAIF

A. Background: SAIF Assessment Rates

In deciding against changes in the SAIF assessment rate, the Board has considered the SAIF's expected operating expenses, case resolution expenditures and income under a range of scenarios. The Board also has considered the effect of an increase in the assessment rate on SAIF members' earnings and capital. When first adopted, the assessment rate schedule yielded a weighted average rate of 25.9 basis points. With subsequent improvements in the industry and the migration of institutions to lower rates within the assessment matrix, the average rate has declined to 23.7 basis points (based on risk-based assessment categories as of July 1, 1995 and the assessment base as of June 30, 1995—see Table 2).

TABLE 2.—SAIF ASSESSMENT BASE DISTRIBUTION SUPERVISORY AND CAPITAL RATINGS IN EFFECT JULY 1, 1995 DEPOSITS AS OF JUNE 30, 1995

[In billions]

Capital group		Supervisory subgroup					
		A		B		C	
Well capitalized	Number	1,529	86.1%	137	7.7%	24	1.4%
	Base	$611.1	83.6	$58.4	8.0	$17.0	2.3
Adequately capitalized	Number	22	1.2	30	1.7	26	1.5
	Base	$16.6	2.3	$18.3	2.5	$6.8	0.9
Under-capitalized	Number	0	0.0	0	0.0	7	0.4
	Base	$0.2	0.0	$0.0	0.0	$2.1	0.3

''Number'' reflects the number of SAIF members; ''Base'' reflects the SAIF-assessable deposits of SAIF members and of BIF-member Oakar banks.

The primary source of funds for the SAIF is assessment revenue from SAIF-member institutions. Since the creation of the fund and through the end of 1992, however, all assessments from SAIF-member institutions were diverted to other needs as required by FIRREA.[3] Only assessment revenue generated from BIF-member institutions that acquired SAIF-insured deposits under section 5(d)(3) of the FDI Act (12 U.S.C. 1815(d)(3)) (so-called ''Oakar'' banks) was deposited in the SAIF throughout this period.

B. The SAIF is Significantly Undercapitalized

SAIF-member assessment revenue began flowing into the SAIF on January 1, 1993. However, the FICO has a priority claim on SAIF-member assessments in order to service FICO bond obligations. Under existing statutory provisions, FICO has assessment authority through 2019, the maturity year of its last bond issuance. At a maximum of $793 million per year, the FICO draw is substantial, and is expected to represent 45 percent of estimated assessment revenue for 1995,

[1] Title III of CEBA, entitled the Federal Savings and Loan Insurance Corporation Recapitalization Act of 1987, directed the Federal Home Loan Bank Board to charter FICO for the purpose of financing the recapitalization of the FSLIC by purchasing FSLIC securities (and, subsequently, securities issued by the FSLIC Resolution Fund as successor to FSLIC).

[2] The REFCORP Principal Fund is now fully funded and, accordingly, REFCORP's assessment authority has effectively terminated.

[3] From 1989 through 1992, more than 90 percent of SAIF assessment revenue went to the FRF, the REFCORP and the FICO.

or 11 basis points of the average assessment rate of 23.7 basis points.[4] The SAIF had a balance of $3.1 billion (unaudited) on September 30, 1995. With primary responsibility for resolving failed thrift institutions residing with the Resolution Trust Corporation (RTC) until June 30, 1995, there were few demands on the SAIF. The SAIF assumed resolution responsibility for failed thrifts from the RTC on July 1, 1995.

In addition to assessment revenue and investment income, there are other potential sources of funds for the SAIF as follows. First, the FDIC has a $30 billion line of credit available from the Department of the Treasury (Treasury) for deposit insurance purposes, on which no draws have been made to date. FDI Act section 14(a). The SAIF would be required to repay any amounts borrowed from the Treasury with revenues from deposit insurance premiums. As a condition of borrowing, the FDIC would be required to provide the Treasury with a repayment schedule demonstrating that future premium revenue would be adequate to repay any amount borrowed plus interest. FDI Act section 14(c).

Next, the RTCCA authorized the appropriation of up to $8 billion in Treasury funds to pay for losses incurred by the SAIF during fiscal years 1994 through 1998, to the extent of the availability of appropriated funds. In addition, at any time before the end of the 2-year period beginning on the date of the termination of the RTC, the Treasury is to provide out of funds appropriated to the RTC but not expended, such amounts as are needed by the SAIF and are not needed by the RTC. To obtain funds from either of these sources, however, certain certifications must be made to the Congress by the Chairman of the FDIC. FDI Act sections 11(a)(6)(D), (E) and (J). Among these, the Chairman must certify that the Board has determined that:

(1) SAIF members are unable to pay additional semiannual assessments at the rates required to cover losses and to meet the repayment schedule for any amount borrowed from the Treasury for insurance purposes under the FDIC's line of credit without adversely affecting the SAIF members' ability to raise capital or to maintain the assessment base; and

(2) An increase in assessment rates for SAIF members to cover losses or meet any repayment schedule could reasonably be expected to result in greater losses to the Government.

It may require extremely grave conditions in the thrift industry in order for the FDIC to certify that raising SAIF assessments would result in increased losses to the Government. Moreover, these funds cannot be used to capitalize the fund, that is, to provide an insurance reserve, which was the original purpose of requiring a 1.25 reserve ratio.

The RTC's resolution activities and the thrift industry's substantial reduction of troubled assets in recent years have resulted in a relatively sound industry as the SAIF assumed resolution responsibility. However, with a balance of $3.1 billion, the SAIF does not have a large cushion with which to absorb the costs of thrift failures. The FDIC has significantly reduced its projections of failed-thrift assets for the next two years, but the failure of a single large institution or several sizeable institutions or an economic downturn leading to higher than anticipated losses could render the fund insolvent. The FDIC's loss projections for the SAIF are discussed in more detail below.

C. Condition and Performance of SAIF-Member Institutions [5]

SAIF members earned $1.4 billion in the second quarter of 1995, compared to $1.2 billion in the first quarter. Average returns on assets (0.73 percent) and equity (9.23 percent) both increased from first-quarter levels, but SAIF members' average returns remain well below those of BIF members (1.14 percent ROA and 14.25 percent ROE). Despite a slight rise in loss provisions (up 1 percent), asset quality remains strong. Noncurrent loans and foreclosed real estate both declined from first-quarter levels, reducing the ratio of troubled assets to total assets from 1.18 percent to 1.12 percent. Reserve coverage of noncurrent loans improved slightly, from 84 cents for each dollar of noncurrent loans to 85 cents, and the equity-to-assets ratio also rose, from 7.88 percent on March 31 to 8.02 percent on June 30. SAIF members were slightly less reliant on deposits, which comprised 77.9 percent of their liabilities on June 30, down from 78.2 percent in the first quarter.

As of June 30, 1995, there were 1,774 members of the SAIF, including 1,696 savings institutions and 78 commercial banks. On this date, there were 54 SAIF-member "problem" institutions with total assets of $30 billion, compared to 73 institutions with $59 billion a year earlier. Two SAIF-member thrifts, with total assets of $456 million, failed during the first half of 1995. No SAIF members have failed since July 1, when the SAIF assumed resolution responsibility from the RTC.

A discussion of the improving condition of the SAIF-member thrift industry must be tempered by the higher risks the SAIF faces relative to the BIF. The SAIF has fewer members among which to spread risk and also has greater risks from geographic and product concentrations. The eight largest holders of SAIF-insured deposits, with a combined 18.5 percent of such deposits, all operate predominantly in California. By contrast, the eight largest holders of BIF-insured deposits operate in five different states and hold 10 percent of all BIF-insured deposits. The assets of SAIF members are heavily concentrated in residential real estate, largely due to statutory requirements that must be met to realize certain income tax benefits. While these investments entail relatively little credit risk, SAIF members generally are more exposed to interest-rate risk than BIF members.

D. Impact of a Premium Differential

The BIF achieved its statutorily required minimum reserve ratio of 1.25 percent during the second quarter of 1995, enabling the Board to lower BIF assessment rates. On August 8, 1995, the Board adopted an assessment rate schedule for the BIF ranging from 4 to 31 basis points, compared to a range of 23 to 31 basis points under the earlier BIF schedule and the current SAIF schedule. The Board has decided to decrease BIF rates further, to a range of 0 to 27 basis points, based on the continuing strength of the commercial banking industry and low near-term loss expectations. A notice concerning the BIF assessment rate schedule is published elsewhere in this Federal Register.

Under the current BIF and SAIF assessment rate schedules, average SAIF rates are 23 basis points higher than average BIF rates. It is likely that for the next seven years SAIF rates will remain significantly higher than BIF rates, until the SAIF is capitalized. After capitalization, SAIF rates will continue to be at least 11 basis points higher until the FICO bonds mature in 2017 to 2019, assuming the Board sets SAIF assessment rates to cover FICO's needs. If BIF members pass along most of their assessment savings to their customers, SAIF members may be forced to pay more for deposits or charge less for

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[4] The FICO has an annual call on up to the first $793 million in SAIF assessments until the year 2017, with decreasing calls for two additional years thereafter. With interest credited for early payment, the actual annual draw is expected to approximate $780 million.

[5] Excluding one self-liquidating savings institution and RTC conservatorships. The final RTC conservatorship was resolved during the second quarter, prior to June 30.

loans to remain competitive. For SAIF members, this could result in reduced earnings and an impaired ability to raise funds in the capital markets. An analysis of a five-year time span suggests that any increase in failures attributable solely to an average 23-basis point differential is likely to be sufficiently small as to be manageable by the SAIF under current interest-rate and asset-quality conditions. The analysis also indicates that under harsher than assumed interest-rate and asset-quality conditions, these economic factors would have a significantly greater effect on SAIF-member failure rates than would a 23-basis point premium differential by itself. Among the weakest SAIF members, the differential could be as high as 31 basis points, possibly resulting in competitive pressures that cause additional failures. However, analysis showed that, apart from institutions that have already been identified by the FDIC's supervisory staff as likely failures, the wider spread is likely to have a minimal impact in terms of additional failures.

Nevertheless, the Board recognizes that a premium differential between BIF- and SAIF-insured institutions is likely to increase competitive pressures on thrifts and impede their ability to generate capital both internally and externally.[6] The Board recognizes that an ongoing premium disparity of 23 basis points provides powerful incentives to reduce SAIF-assessable deposits. This could be readily accomplished in a number of ways, with implications both for the ability of SAIF members to fund FICO interest payments, discussed in the following section, and for the structural soundness of the SAIF. A sharp decline in membership and the assessment base would also render the SAIF less effective as a loss-spreading mechanism for insurance purposes by exacerbating the concentration risks the fund already faces.

E. The Ability of the SAIF to Fund FICO

Under law, SAIF assessments paid by BIF-member Oakar banks are deposited in the SAIF and are not subject to FICO draws.[7] Further, SAIF assessments paid by any former savings association that (i) Has converted from a savings association charter to a bank charter, and (ii) remains a SAIF member in accordance with section 5(d)(2)(G) of the FDI Act (12 U.S.C. 1815(d)(2)(G)) (a so-called ''Sasser'' bank), are likewise not subject to assessment by FICO.[8] On June 30, 1995, BIF-member Oakar banks held 27.8 percent of the SAIF assessment base, and SAIF-member Sasser banks held an additional 7.5 percent (see Table 3).

TABLE 3.—PERCENTAGE DISTRIBUTION OF THE SAIF ASSESSMENT BASE

	Available to FICO	Not available to FICO			Total
		Oakar	Sasser	Subtotal	
12/89	99.8	0.2	0.0	0.2	100.0
12/90	95.8	3.9	0.3	4.2	100.0
12/91	89.9	8.7	1.5	10.1	100.0
12/92	85.9	10.3	3.8	14.1	100.0
12/93	74.7	19.4	5.9	25.3	100.0
12/94	67.3	25.4	7.3	32.7	100.0
6/95	64.7	27.8	7.5	35.3	100.0

While the pace of Oakar acquisitions slowed as RTC resolution activity wound down, Oakar acquisitions may continue and become an even greater proportion of the SAIF assessment base.[9] This has the potential result of the SAIF having insufficient assessments to cover the FICO obligation at current assessment levels. The rate of Sasser conversions is difficult to predict and is partially dependent on state laws, but any future conversions would also decrease the proportion of SAIF assessment revenues available to FICO.

In addition to the growth of the Oakar/Sasser portion of the SAIF assessment base, the ability of the SAIF to fund FICO interest payments will be adversely affected by the premium differential. Despite the current moratorium on the transfer of deposits between funds, many alternatives are available to SAIF-insured institutions seeking to reduce their SAIF-assessable deposits.[10] These institutions could decrease their SAIF assessments by shifting their funding to nondeposit liabilities, such as Federal Home Loan Bank advances and reverse repurchase agreements; by securitizing assets; or by changing business strategies, such as choosing to become a mortgage bank. Lastly, SAIF-insured institutions and their parent companies could structure affiliate relationships that facilitate the ''migration'' of deposits from a SAIF-insured institution to a BIF-insured affiliate. At least a dozen large organizations have already filed applications seeking to establish affiliate relationships for this apparent purpose. Moreover, more than 100 bank and thrift holding companies with both BIF- and SAIF-member affiliates already have the means in place.

These strategies to reduce reliance on SAIF-insured deposits could rapidly deplete the SAIF assessment base to the point where the assessment base is not large enough to generate sufficient revenue to cover the FICO obligation. This would occur with a 20 percent reduction in the current SAIF assessment base, and it is not unreasonable to expect a decline of that magnitude.

[6] *See The Condition of the BIF and the SAIF and Related Issues*, Testimony of Ricki Helfer, Chairman, FDIC, before the Subcommittee on Financial Institutions and Consumer Credit, Committee on Banking and Financial Services, U.S. House of Representatives, Attachment C entitled ''Analysis of Issues Confronting the Savings Association Insurance Fund,'' March 23, 1995.

[7] See Notice of FDIC General Counsel's Opinion No. 7, 60 FR 7055 (Feb. 6, 1995).

[8] *Id.*

[9] SAIF-assessable deposits held by BIF-member Oakar banks will continue to grow at the same rate as the Oakar bank's overall deposit base. Under section 5(d)(3) of the FDI Act, as amended by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), such deposits are adjusted annually by the acquiring institution's overall deposit growth rate (excluding the effects of mergers or acquisitions).

[10] *The Condition of the SAIF and Related Issues*, Testimony of Ricki Helfer, Chairman, FDIC, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Attachment A entitled ''The Immediacy of the Savings Association Insurance Fund Problem,'' July 28, 1995. *The Condition of the SAIF and Related Issues*, Testimony of Ricki Helfer, Chairman, FDIC, before the Subcommittee on Financial Institutions and Consumer Credit, Committee on Banking and Financial Services, U.S. House of Representatives, Attachment A entitled ''The Immediacy of the Savings Association Insurance Fund Problem,'' August 2, 1995.

With two insurance funds providing essentially the same product at significantly different prices, it must be expected that purchasers will seek the lower price. Attempts to control this behavior through legislation or regulation are likely to be ineffective and may only result in companies finding less efficient means. A legislated reversal of the Oakar/Sasser exemption would only defer a FICO shortfall because the existence of a significant, prolonged premium differential is likely to result in continued erosion of the SAIF assessment base.

F. Failed-Asset Estimates for the SAIF

Among the factors that affect the ability of the SAIF to capitalize and to meet the FICO assessment are the number of thrift failures and the dollar amount of failed assets going forward.

Estimates of failed-institution assets are made by the FDIC's interdivisional Bank and Thrift Failure Working Group. In September 1995, the Working Group estimated failed thrift assets of $50 million for the fourth quarter of 1995, $1 billion for 1996 and $4.5 billion for the first nine months of 1997. For loss projections beyond September 1997, the assumed failed-asset rate for the SAIF was 22 basis points, or about $2 billion per year.

In the FDIC's projections, banks and thrifts were assumed to face similar longer-run loss experience. The BIF's historical average failed-asset rate from 1974 to 1994 was about 45 basis points. However, a lower failure rate than the recent historical experience of the BIF was assumed because the thrift industry is relatively sound following the RTC's removal of failing institutions from the system, and the health and performance of the remaining SAIF members has improved markedly. As of June 30, 1995, 86 percent of all SAIF-member institutions were in the best risk classification of the FDIC's risk-related premium matrix.

One of the purposes of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) was to minimize losses to the insurance funds. FDICIA increased regulatory oversight and emphasized capital. Specifically, FDICIA requires the closing of failing institutions prior to the full depletion of their capital, limits riskier activities by institutions that are less than adequately capitalized, and establishes audit standards and statutory time frames for examinations. The law also requires the implementation of risk-related assessments, which have provided effective incentives for institutions to achieve and maintain the highest capital and supervisory standards. In light of these provisions, the high levels of thrift failures and insurance losses experienced over the past decade must be tempered when considering the industry's near-term future performance.

G. Projections for the SAIF

The FDIC currently projects that, under reasonably optimistic assumptions, the SAIF is not likely to reach the statutorily mandated DRR of 1.25 percent until 2002. Also, projections indicate the fund will not encounter problems meeting the FICO obligation through 2004.

It is important to note that the baseline assumptions underlying these projections foresee shrinkage in the non-Oakar portion of the SAIF assessment base of 2 percent per year. If thrifts react aggressively to the premium differential and reduce their SAIF-assessable deposits, as discussed in Section IV.E, substantially greater shrinkage may occur. Under higher rates of shrinkage, the SAIF is likely to capitalize prior to 2002 because a lower level of insured deposits would require a smaller fund to meet the DRR; however, FICO interest payments could be jeopardized within a year or two.

As stated earlier, the Board has the authority to reduce SAIF assessment rates to a minimum average of 18 basis points until January 1, 1998, at which time the average rate would rise to 23 basis points until capitalization occurs. Projections made under this scenario (and using the other baseline assumptions) indicate that the SAIF would capitalize in 2005, or three years later than under the existing rate schedule. Perhaps more importantly, reduction of the SAIF assessment rate to 18 basis points is expected to cause a FICO shortfall in 1996.

IV. Suggested Legislative Initiatives

Congress is considering a number of legislative proposals to resolve the difficulties facing the SAIF. Most of these proposals are intended to bring about the capitalization of the SAIF early in 1996 and expand the assessment base for the FICO obligation. Pending enactment of a comprehensive, legislative resolution to the difficulties facing the SAIF, however, the FDIC must comply with current statutory mandates.

As discussed above, the law provides that if the reserve ratio is less than the DRR, the Board must set semiannual assessments for SAIF members to increase the reserve ratio to the DRR. FDI Act section 7(b)(2)(A)(i). In setting SAIF assessments to achieve and maintain the current DRR of 1.25 percent, the Board must consider the SAIF's expected operating expenses, case resolution expenditures and income, the effect of assessments on members' earnings and capital, and any other factors that the Board may deem appropriate. FDI Act section 7(b)(2)(D). Given the uncertainty underlying the current legislative process and the range of possible solutions, it would be inappropriate to base the assessment rate for the first semiannual period of 1996 on what Congress may or may not do. Should legislation affecting the SAIF finally be enacted, the FDIC will promptly consider its impact and take any action deemed necessary or appropriate regarding assessment rates in accordance with the new legislative mandates.

V. Board Resolution

For the reasons outlined above, the Board has adopted a Resolution to retain the existing assessment rate schedule applicable to SAIF-member institutions for the first semiannual assessment period of 1996. The text of the Resolution is set out below.

Resolution

Whereas, section 7(b) of the Federal Deposit Insurance Act (''FDI Act'') requires the Board of Directors (''Board'') of the Federal Deposit Insurance Corporation (''FDIC'') to establish by regulation a risk-based assessment system; and

Whereas, section 7(b) of the FDI Act requires the Board to set semiannual assessments for Savings Association Insurance Fund (''SAIF'') members to maintain the reserve ratio of SAIF at the designated reserve ratio (''DRR'') or, if the reserve ratio is less than the DRR, to increase the reserve ratio to the DRR; and

Whereas, the DRR for the SAIF is currently 1.25 percent of estimated insured deposits, the minimum level permitted by the FDI Act; and

Whereas, section 7(b) further requires that, in setting SAIF assessments to achieve and maintain the reserve ratio of SAIF at the DRR, the Board consider the following factors: (1) Expected operating expenses; (2) case resolution expenditures and income; (3) the effect of assessments on members' earnings and capital; and (4) any other factors the Board may deem appropriate; and

Whereas, the Board has considered the factors specified in the FDI Act, as reflected in the attached Federal Register notice document; and

Whereas, Part 327 of the rules and regulations of the FDIC, 12 C.F.R. Part 327, entitled ''Assessments,'' prescribes the rules governing the assessment of institutions insured by the FDIC; and

Whereas, paragraph 327.9(c)(1) of title 12 of the C.F.R. prescribes the assessment rate schedule applicable to members insured by the SAIF; and

Whereas, based upon its semiannual review of the SAIF capitalization schedule and assessment rates for SAIF-insured institutions, the Board finds that it is appropriate to retain the existing assessment rate schedule applicable to members of the SAIF with the result that the SAIF assessment rates to be paid by depository institutions whose deposits are subject to assessment by the SAIF will continue to range from 23 cents per $100 of assessable deposits to 31 cents per $100 of assessable deposits, depending on risk classification.

Now, therefore, be it resolved, that the existing assessment rate schedule applicable to members of the SAIF shall be retained for the first semiannual assessment period of 1996 from January 1, 1996, through June 30, 1996.

Be it further resolved, that the Board hereby directs the Executive Secretary, or his designee, to cause the aforementioned Federal Register notice document to be published in the Federal Register in a form and manner satisfactory to the Executive Secretary, or his designee, and the General Counsel, or his designee.

By the order of the Board of Directors.

Dated at Washington, D.C., this 14th day of November, 1995.

Federal Deposit Insurance Corporation.

Robert E. Feldman,

Deputy Executive Secretary.

[FR Doc. 95–28720 Filed 12–8–95; 8:45 am]

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DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 39

[Docket No. 95–CE–26–AD; Amendment 39–9442; AD 95–24–12]

Airworthiness Directives; Jetstream Aircraft Limited Model 3201 Airplanes

AGENCY: Federal Aviation Administration, DOT.

ACTION: Final rule.

SUMMARY: This amendment adopts a new airworthiness directive (AD) that applies to Jetstream Aircraft Limited (JAL) Model 3201 airplanes. This action requires repetitively inspecting the main landing gear (MLG) bay forward lower edge wing skin structure for cracks, replacing any cracked doubler with a joggled doubler of improved design to reinforce the area and prevent future cracking, and eventually incorporating these doublers on all affected airplanes. Cracking found at the MLG bay forward lower edge wing skin structure during fatigue testing of the JAL Model 3201 prompted this action. The actions specified by this AD are intended to prevent the MLG bay forward lower edge wing skin structure from cracking, which, if not detected and corrected, could cause failure of the wing structure and loss of control of the airplane.

DATES: Effective January 17, 1996.

The incorporation by reference of certain publications listed in the regulations is approved by the Director of the Federal Register as of January 17, 1996.

ADDRESSES: Service information that applies to this AD may be obtained from Jetstream Aircraft Limited, Prestwick International Airport, Ayrshire, KA9 2RW, Scotland, telephone (44–292) 79888; facsimile (44–292) 79703; or Jetstream Aircraft Inc., Librarian, P.O. Box 16029, Dulles International Airport, Washington DC 20041–6029; telephone (703) 406–1161; facsimile (703) 406–1469. This information may also be examined at the Federal Aviation Administration (FAA), Central Region, Office of the Assistant Chief Counsel, Attention: Rules Docket 95–CE–26–AD, Room 1558, 601 E. 12th Street, Kansas City, Missouri 64106; or at the Office of the Federal Register, 800 North Capitol Street, NW., suite 700, Washington, DC.

FOR FURTHER INFORMATION CONTACT: Ms. Dorenda Baker, Program Officer, Brussels Aircraft Certification Office, FAA, Europe, Africa, and Middle East Office, c/o American Embassy, B–1000 Brussels, Belgium; telephone (322) 508.2715; facsimile (322) 230.6899; or Mr. Sam Lovell, Project Officer, Small Airplane Directorate, Airplane Certification Service, FAA, 1201 Walnut, suite 900, Kansas City, Missouri 64106; telephone (816) 426–6932; facsimile (816) 426–2169.

SUPPLEMENTARY INFORMATION: A proposal to amend part 39 of the Federal Aviation Regulations (14 CFR part 39) to include an AD that would apply to Jetstream Aircraft Limited (JAL) Model 3201 airplanes was published in the Federal Register on August 14, 1995 (60 FR 41868). The action proposed to require repetitively inspecting the main landing gear (MLG) bay forward lower edge wing skin structure for cracks, replacing any cracked doubler with a joggled doubler of improved design to reinforce the area and prevent future cracking, and eventually incorporating these doublers on all affected airplanes. Accomplishment of the proposed action would be in accordance with Jetstream Service Bulletin (SB) 57–A–JA920540; Original Issue September 1, 1992.

Interested persons have been afforded an opportunity to participate in the making of this amendment. No comments were received on the proposed rule or the FAA's determination of the cost to the public.

After careful review of all available information related to the subject presented above, the FAA has determined that air safety and the public interest require the adoption of the rule as proposed except for minor editorial corrections. The FAA has determined that these minor corrections will not change the meaning of the AD and will not add any additional burden upon the public than was already proposed.

The FAA estimates that 134 airplanes in the U.S. registry will be affected by this AD, that it will take approximately 35 workhours per airplane to accomplish the required action, and that the average labor rate is approximately $60 an hour. Parts will be provided by the manufacturer at no cost to the owners/operators. Based on these figures, the total cost impact of this AD on U.S. operators is estimated to be $281,400. This figure is based on the assumption that all of the affected airplanes do not have the new joggled doublers installed and that none of the owners/operators of the affected airplanes have replaced the doublers. The FAA has no way of determining the number of repetitive inspections an owner/operator may incur.

The regulations adopted herein will not have substantial direct effects on the States, on the relationship between the national government and the States, or on the distribution of power and responsibilities among the various levels of government. Therefore, in accordance with Executive Order 12612, it is determined that this final rule does not have sufficient federalism implications to warrant the preparation of a Federalism Assessment.

For the reasons discussed above, I certify that this action (1) is not a ‘‘significant regulatory action’’ under Executive Order 12866; (2) is not a ‘‘significant rule’’ under DOT Regulatory Policies and Procedures (44 FR 11034, February 26, 1979); and (3) will not have a significant economic impact, positive or negative, on a substantial number of small entities under the criteria of the Regulatory Flexibility Act. A copy of the final evaluation prepared for this action is contained in the Rules Docket. A copy