



Insurance Assessments

FIL-17-95
February 21, 1995

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Proposed Assessment Rates for the Bank Insurance Fund and the Savings Association Insurance Fund*

Under the current risk-related premium system, banks and savings associations pay insurance assessments within a range of 23 cents to 31 cents per \$100 of domestic deposits, depending on each institution's risk classification. On January 31, 1995, the FDIC Board of Directors issued for public comment a proposal that would lower assessment rates for most Bank Insurance Fund (BIF) members. This is intended to achieve the fundamental goals of risk-based assessment rates, which are to reflect the risk posed to the insurance fund by insured institutions and to provide institutions with incentives to control risk-taking. Separately, the Board requested comment on a proposal to maintain the existing assessment rates for members of the Savings Association Insurance Fund (SAIF). The following provides a brief summary of the attached proposals.

BIF Assessment Rates

Current law requires the BIF to have 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 FDIC expects the BIF to reach the 1.25 percent reserve ratio between May 1 and July 31, 1995. The BIF had an unaudited balance of \$21.3 billion as of Dec. 31, 1994, and is expected to have \$24.4 billion at recapitalization, based on current insured deposit levels. The Board's proposed assessment rate schedule would provide lower assessment rates for all but the riskiest BIF-insured institutions upon the recapitalization of the BIF. The assessment rate for the best-rated institutions (about 90 percent of the nearly 11,000 BIF-insured institutions) would be reduced to four cents per \$100 of domestic deposits, from the current 23 cents per \$100. The weakest institutions would continue to pay 31 cents per \$100 of domestic deposits. The resulting rate spread from best-rated to weakest would be 27 cents per \$100. The average assessment rate under the proposed schedule would be 4.5 cents per \$100. Proposed assessment rates for all nine risk categories are attached.

The Board also proposed to establish a process for raising or lowering the entire assessment rate schedule semiannually without first seeking public comment, but only within a range of up to five cents per \$100. This five basis point "adjustment factor" is intended to provide the Board with the flexibility to adjust assessment rates in a timely manner in response to changing conditions.

As proposed, the new assessment rate schedule would apply to the semiannual assessment period in which the BIF reaches its target level. The Board noted that it cannot lower assessment rates until it is certain that the fund has recapitalized. However, due to unavoidable lags in the data collection and verification process, the FDIC does not expect to be able to verify a BIF recapitalization until September of 1995. Therefore, the FDIC's May 30th assessment invoice and your June 30th insurance payment (via direct debit under the new quarterly payment system) would reflect current rates. However, if a BIF recapitalization can be verified prior to your September 30th insurance payment, that payment would be modified to reflect the new rate schedule. The proposed assessment rates would apply from the first day of the month after the BIF is recapitalized. Under this scenario, it is likely that some BIF members will have overpaid their assessment. In that event, assessment refunds plus interest would be provided.

SAIF Assessment Rates

Separately, the FDIC Board proposed to retain the existing SAIF assessment rate schedule so that capitalization of this fund could be accomplished as soon as possible. Like the BIF, the SAIF must reach a statutorily-mandated level of 1.25 percent of estimated insured deposits. The SAIF had an estimated balance of approximately \$1.8 billion at year-end 1994, a reserve ratio of 26 cents per \$100 of insured deposits. The SAIF needs approximately \$8.5 billion or an additional \$6.7 billion, to be fully capitalized.

Under the existing SAIF assessment rate schedule, which yields an average assessment rate of 24 cents per \$100 of domestic deposits, the SAIF is projected to capitalize in the year 2002. This projection is unchanged from the FDIC's September 1994 projection. The Board has the authority to reduce SAIF assessment rates to 18 cents for every \$100 of domestic deposits until January 1, 1998, after which 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. Also, the SAIF will assume from the Resolution Trust Corporation the responsibility for resolving failed thrifts starting July 1, 1995. Although the thrift industry is relatively healthy, the FDIC Board's proposal supports the earlier projected SAIF capitalization in 2002 by proposing to retain the existing rate schedule.

Comments and Questions

Written comments on the BIF and SAIF proposals will be accepted through April 17, 1995. The FDIC is sensitive to the potential impact of a substantial premium differential between BIF-insured and SAIF-insured institutions, and is asking for comment on that particular issue.

For more information about the BIF proposal, please contact any of the FDIC staff members listed on Page 9270 of the attached Federal Register notice. Regarding the SAIF proposal, contact James R. McFadyen, a senior financial analyst in the Division of Research and Statistics (202-898-7027).

Ricki Tigert Helfer
Chairman

Attachments: [PDF Format](#) (123 kb, [PDF help](#) or [hard copy](#)), [HTML Format](#)

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