Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

Division of Supervision

Insurance Assessments

FIL-79-95
November 27, 1995

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Assessment Rates for the First Semiannual Assessment Period of 1996*

On November 14, 1995, the FDIC Board of Directors voted to reduce the insurance premiums paid on deposits covered by the Bank Insurance Fund (BIF) and to maintain existing assessment rates for deposits covered by the Savings Association Insurance Fund (SAIF). Attached are overviews of the assessment rates for BIF- and SAIF- insured institutions. These rates will become effective for the first semiannual assessment period of 1996.

BIF Assessment Rates

Under the new rate structure for the BIF, assessment rates will be lowered by four cents per $100 of assessable deposits for all risk categories, subject to the statutory requirement that all institutions pay at least $2,000 annually for FDIC insurance. The new BIF rate structure retains the current rate spread of 27 cents per $100 of assessable deposits between the highest- and lowest- rated institutions, as well as the rate spreads among the other "cells" in the assessment rate matrix. The four-cent reduction in BIF rates utilizes the "adjustment" procedure established by the Board in August 1995 to change rates within a five-cent range without first having to seek public comment.

As shown in Attachment A, the highest-rated institutions insured by the BIF will pay the statutory annual minimum of $2,000. BIF rates for all other institutions will be reduced by four cents per year. For example, the assessment rate to be paid by institutions in the "2A" or "1B" categories for risk-based insurance purposes will decline to three cents from seven cents. The assessment rate for the weakest institutions will be reduced to 27 cents from 31 cents.

The average assessment rate is expected to decline to an historical low of approximately 0.43 cents per $100, from the current average assessment rate of 4.4 cents per $100. By comparison, the lowest effective average assessment rate in the FDIC's history previously was 3.13 cents per $100 in both 1962 and 1963. The assessment rate reduction is expected to yield annual industry savings of about $946 million.

In setting deposit insurance assessment rates, the Board sought to balance the applicable requirements, including: (1) meeting the long-term funding requirements 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 Designated Reserve Ratio (DRR). The Board has not changed its view that an effective assessment rate of four to five cents per $100 of domestic deposits is appropriate for achieving balance between BIF revenue and expenses over the long run; however, the Board has determined that the highest-rated institutions should be charged the minimum assessment for the first semiannual assessment period of 1996 given current industry conditions, the financial health of the BIF and the statutory requirement to maintain the target DRR. This decision does not reflect a judgment that the best-rated institutions pose a near-zero risk to the insurance fund, but instead a recognition that the BIF balance, now above $25 billion, represents significant prepayments banks have made for deposit insurance.

SAIF Assessment Rates

Institutions insured by the SAIF will continue paying premiums on a risk-related basis of 23 cents per $100 to 31 cents per $100, as shown in Attachment B. 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, 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 the year 2002.

The SAIF continues to experience major problems that must be addressed successfully before SAIF premiums can be lowered. Congress currently is working on legislation that would address the problems of the SAIF.

For More Information

If you need more information about the Board's action regarding BIF assessment rates, contact: Frederick S. Carns, Chief, Financial Markets Section, Division of Research and Statistics (202-898-3930); Christine Blair, Financial Economist, Division of Research and Statistics (202-898-3936); Claude A. Rollin, Senior Counsel, Legal Division (202-898-3985); or Martha L. Coulter, Counsel, Legal Division (202-898-7348).

For more information about the Board's action regarding SAIF assessment rates, contact: James R. McFadyen, Senior Financial Analyst, Division of Research and Statistics (202-898-7027); Mr. Rollin of the Legal Division (see above); or Valerie Jean Best, Counsel, Legal Division (202-898-3812).

Ricki Helfer
Chairman

Attachments

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