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

Division of Supervision

Insurance Assessments for Oakar Institutions

FIL-102-96
December 18, 1996

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *FDIC Issues Final Rule on Amendments to Assessment Regulations for Oakar Institutions (Part 327 of the FDIC's Rules and Regulations)*

The FDIC Board of Directors finalized a rule on November 26, 1996, amending the FDIC's assessment regulations concerning the Adjusted Attributable Deposit Amount (AADA) for Oakar institutions. The AADA is used to determine the allocation of an Oakar institution's assessable deposits between the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). It is the amount of an institution's assessable deposits that is attributable to the secondary insurance fund (the fund of which the institution is not a member).

These amendments are generally intended to eliminate certain anomalies in the assessment treatment of Oakar institutions. Following is a summary of the major amendments adopted by the Board:

Principle for Allocation of Deposit Sales

The final rule maintains the FDIC's current principle for allocating deposits between the two insurance funds when sales occur. When an Oakar institution sells deposits, it sells the deposits insured by its primary fund. Secondary fund deposits are sold only to the extent that the sale exceeds the amount of the seller's total primary fund deposits.

AADA Growth Calculation

The FDIC's previous methodology for calculating growth or shrinkage of an institution's AADA treated deposit sales as normal shrinkage. This methodology created an inadvertent shift in deposits from the secondary to the primary fund. The final rule amends this treatment so that deposit sales will not produce this effect.

Quarterly Adjustment of AADA

The Board adopted an amendment to move from an annual to a quarterly adjustment of the AADA and to use the most recent quarter's total deposit growth rate as the current quarterly growth rate for the AADA. Adoption of this approach will allow the FDIC to maintain a closer correlation between the AADA and the institution's overall deposit base, resulting in a more accurate computation of the primary and secondary funds, assessment bases and reserve ratios. In order to relieve Oakar institutions of the potential burden of this change, the final rule provides for the FDIC to take over the responsibility of calculating each Oakar's AADA using quarterly call report data. The AADA will be calculated as part of the current quarterly payment process, and this calculation, along with supporting documentation, will accompany each Oakar institution's quarterly assessment invoice.

New AADAs

Drawing on the quarterly computation of the AADA, the final rule reinterprets the FDIC's assessment regulation in a manner that assesses a new AADA beginning in the quarter in which it was created. Previously, the AADA was required to be assessed for an entire semiannual period. Accordingly, when an institution acquired deposits in the second half of a semiannual period, the institution's assessment payment was adjusted so that the institution was assessed on its AADA for both quarters of the period. The final rule allows the AADA to be assessed in the second quarter only.

Deposits Acquired from Troubled Institutions

The final rule eliminates certain discounts given to reduce the buyer's AADA in transactions involving an institution in FDIC or RTC conservatorship or receivership. The Board adopted this change to simplify the FDIC's assessment regulations and to ensure that one set of rules applies to acquisitions of both healthy and failed institutions.

Codification of Conduit Principle

The final rule codifies the FDIC's current principle for "conduit" deposits. Conduit deposits are those secondary fund deposits acquired in an Oakar transaction when a federal banking supervisory agency or the U.S. Department of Justice has explicitly required that the deposits be divested within six months. Conduit deposits are not counted as acquired deposits in computing an institution's AADA after re-transfer.

A copy of the final rule is attached. For further information, please contact Al Long, Assistant Director, Division of Finance, (202) 416-6991; Stephen Ledbetter, Chief, Assessments Evaluation, Division of Insurance, (202) 898-8658; Richard Osterman, Senior Counsel, Legal Division, (202) 898-3523; or Jules Bernard, Counsel, Legal Division, (202) 898-3731.

Arthur J. Murton
Director

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