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

Division of Supervision

Insurance Assessments for Oakar Institutuions

FIL-54-96
July 19, 1996

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *FDIC Seeks Comment on Proposed Amendments to Assessment Regulations for Oakar Institutions (Part 327 of the FDIC's Rules and Regulations)*

The FDIC Board of Directors voted on June 18, 1996, to issue for public comment proposed amendments to the FDIC's assessment regulations pertaining to Oakar institutions and, in particular, to the Adjusted Attributable Deposit Amount (AADA).

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). For a BIF-member Oakar, therefore, the AADA is the amount of deposits assessable by the SAIF.

These amendments are generally intended to eliminate some unnecessary anomalies in the assessment treatment of Oakar institutions. For example, one of the amendments would change the method by which the AADA is adjusted for an institution's overall deposit growth. By not accounting for deposit sales in calculating the AADA, the growth-adjustment formula assumes that the seller's decrease in deposits is attributable to normal shrinkage, which has the effect of shrinking both primary and secondary fund deposits. However, the growth adjustment formula for the buyer treats the transaction as an acquisition of the Oakar institution's "primary" fund deposits. This asymmetric treatment of the deposit sale has the effect of increasing the total amount of primary fund deposits reported and assessed by the FDIC while decreasing the total amount of secondary fund deposits. The proposed rule would correct this anomaly in the growth-adjustment formula for all deposit sale transactions that occur after June 30, 1996, effective for the year-end 1996 calculation of an Oakar institution's AADA. The proposed rule would also adjust the AADA for growth or shrinkage on a quarterly, rather than annual, basis, and would make several other technical adjustments to the AADA calculation.

The Board is proposing to reduce the burden associated with the Oakar amendment by eliminating the requirement that Oakar institutions submit growth worksheets to adjust their AADAs for normal growth or shrinkage. The AADA would instead be calculated by the FDIC as part of the quarterly payment process and would be reported, along with supporting documentation, in the materials accompanying an institution's quarterly assessment invoice.

Finally, the proposed rule solicits public comment on two alternatives for allocating funds between the BIF and the SAIF at the time that deposit sales by Oakar institutions occur. The first alternative, consistent with a principle previously articulated by the FDIC, would treat deposit sales by Oakar institutions as sales of primary fund deposits only, unless the amount of deposits sold exceeds the total amount of primary fund deposits available. The second alternative is to treat the sale of deposits as a pro rata blend of the Oakar institutions' primary and secondary fund deposits.

A copy of the proposed rule is attached. Written comments are due by September 3, 1996. For further information, please contact Allan K. Long, Assistant Director, Division of Finance, on

(202) 416-6991; Stephen Ledbetter, Chief, Assessments Evaluation Section, Division of Insurance, on (202) 898-8658; or Jules Bernard, Counsel, Legal Division, on (202) 898-3731.

Arthur J. Murton
Director

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