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

Division of Supervision

SAIF Assessments

FIL-88-96
October 29, 1996

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *FDIC Issues Final Rule to Impose SAIF Special Assessment, Seeks Comment on Proposal to Lower SAIF Assessment Rates (Part 327 of FDIC's Rules and Regulations)*

The FDIC Board of Directors voted on October 8, 1996, to issue a final rule imposing a special assessment of approximately 65.7 basis points on institutions that pay assessments to the Savings Association Insurance Fund (SAIF), and to reduce the adjusted attributable deposit amounts (AADAs) of certain Oakar institutions. The Board also voted to issue for public comment a proposed rule to lower the rates on assessments paid to the SAIF, effective October 1, 1996. Comments on the proposed rule are due by November 15, 1996. Complete details of each Board action are set forth in the attached Federal Register notices.

Special Assessment

The Deposit Insurance Funds Act of 1996 (Funds Act) requires the FDIC to impose a one-time special assessment on SAIF-assessable deposits, including those held by SAIF members and BIF-member Oakar institutions, to capitalize the SAIF at its target Designated Reserve Ratio (DRR) of 1.25 percent of insured deposits effective October 1, 1996. This assessment is required to be applied against SAIF-assessable deposits held by institutions as of March 31, 1995. The amount of the special assessment is required to be based upon the August 31, 1996, SAIF balance and insured deposit data reported in the March 31, 1996, call reports.

In determining the amount of the special assessment, the Board is required to take the following exemptions and adjustments into account: (1) the Funds Act provides the Board with the authority to exempt weak institutions from paying the special assessment if the Board determines that such an exemption would reduce risk to the SAIF; (2) the Funds Act also grants exemptions to certain specifically defined institutions; and (3) the Funds Act decreases by 20 percent the amount of SAIF-assessable deposits against which the special assessment will be applied for certain Oakar and other institutions.

The Funds Act requires the Board to issue guidelines setting forth the Board's criteria for determining whether institutions are weak and, therefore, exempt from the special assessment. The guidelines adopted by the Board classify as weak all institutions that, on the basis of currently available data, are undercapitalized (i.e., would be assigned to capital group 3 in the FDIC's risk-related premium system), as well as any institutions that would become undercapitalized if they were required to pay the special assessment. If an institution not classified as weak disagrees with this determination, the guidelines delegate to the Director of the FDIC's Division of Supervision (DOS) the responsibility for making a final determination on the basis of additional information provided by the institution. If an institution classified as weak prefers to pay the special assessment, the guidelines also delegate to the Director of DOS the responsibility for determining whether the institution is capable of paying without posing a significant risk of loss to the SAIF. Finally, if an institution has received a composite CAMEL rating of 4 or 5 from its primary supervisor, but does not meet the capital-based test for exemption as a weak institution, the guidelines indicate that the institution may request the Director of DOS to classify the institution as weak, based on a determination that paying the assessment would present a significant risk of loss to the SAIF.

Beginning with the first semiannual period of 1997, the Funds Act requires all exempt institutions to pay regular semiannual SAIF assessments according to the rate schedule in effect on June 30, 1995. This schedule is 23 to 31 basis points at annual rates and does not include any rate charged by the Financing Corporation (FICO). As explained below, beginning on January 1, 1997, the FICO charge will be separate from, and in addition to, deposit insurance assessment rates for all insured institutions, regardless of their status for purposes of the special assessment.

The FICO charge on SAIF-assessable deposits for the first semiannual period of 1997, based on June 30, 1996, data, is estimated to be approximately 6.4 basis points annually. The actual rate may differ, depending upon changes in the assessable deposit base. Exempt institutions will pay regular semiannual assessments according to the 23 to 31 basis point schedule through year-end 1999, unless they choose to pay a pro-rated amount of the special assessment prior to that time. By paying the prorated amount, equal to 16.7 percent of the special assessment times the number of semiannual periods remaining through year-end 1999, an institution becomes subject to the same semiannual assessment rate schedule that is applicable to non-exempt institutions. Additional details pertaining to the special assessment are available in the attached Federal Register notice.

As indicated by the attached timelines, institutions subject to the special assessment should have already received a letter describing the procedures the FDIC will follow in determining and collecting the special assessment. Institutions have until November 1, 1996, to review the letter and advise the FDIC of any corrections. The FDIC currently estimates that the special assessment will be 65.7 basis points applied against SAIF-assessable deposits held by institutions as of March 31, 1995. This amount could change based upon adjustments in the data used to compute the amount of the special assessment. If such an adjustment is needed, the FDIC will announce the amount on November 13, 1996, when final invoices will be sent to all affected institutions. The FDIC will debit each institution's designated account on November 27, 1996.

Lower SAIF Assessment Rates

With the SAIF now capitalized at the target DRR by the special assessment, Section 7 of the FDI Act, as amended by the Funds Act, requires the FDIC to set assessment rates so as to maintain the target DRR. The Board is therefore proposing to lower the rates on assessments paid to the SAIF, while simultaneously widening the spread between the lowest and highest rates to improve the effectiveness of the FDIC's risk-based premium system. The Board is also proposing to establish a process, similar to that which currently exists for the BIF, for adjusting the SAIF rate schedule within a limited range without notice and comment to maintain the fund balance at the target DRR.

The Funds Act also separates, effective January 1, 1997, the FICO assessment to service the interest on its bond obligations from the SAIF assessment. However, between October 1, 1996, and January 1, 1997, any amount required by the FICO must continue to be deducted from the amounts the FDIC is authorized to assess SAIF-member savings associations, and must not be assessed against Sasser and BIF-member Oakar institutions. Until January 1, 1997, the effective rate set by the Board for Sasser and BIF-member Oakar institutions must, therefore, be lower than the effective rate for other SAIF members if the Board is to comply with the immediate requirement to maintain the SAIF reserve ratio at the target DRR.

The proposed rule would establish a SAIF rate schedule of 0 to 27 basis points effective for Sasser and BIF-member Oakar institutions on October 1, 1996, and effective for all institutions beginning January 1, 1997. The proposed rule would establish a special interim rate schedule of

18 to 27 basis points annually between October 1, 1996, and January 1, 1997, for SAIF-member savings associations. The complete rate schedules proposed for the fourth quarter of 1996 are shown in the attached Federal Register notice. Excess assessments already collected under the current assessment schedule in the fourth quarter would be refunded or credited with interest for all institutions that paid assessments to the SAIF.

Copies of the final rule to implement the special assessment and the proposed rule to lower SAIF assessment rates are attached, along with assessment timelines.

For further information, please contact Fred Carns, Assistant Director, Division of Insurance (202) 898-3930; Stephen Ledbetter, Chief, Assessments Evaluation Section, Division of Insurance (202) 898-8658; Allan K. Long, Assistant Director, Division of Finance (202) 416-6991; James McFadyen, Senior Financial Analyst, Division of Research and Statistics (202) 898-7027; Christine Blair, Financial Economist, Division of Research and Statistics (202) 898-3936; Richard Osterman, Senior Counsel, Legal Division (202) 898-3523; or, Jules Bernard, Counsel, Legal Division (202) 898-3731.

Arthur J. Murton
Director

Federal Register 61, No. 201, pp 53834-53841
PDF Format (67 kb, PDF help or hard copy), HTML Format
Federal Register 61, No. 201, pp 53867-53876
PDF Format (136 kb, PDF help or hard copy), HTML Format
Timeline for Special Assessment
Timeline for Rulemaking to Reduce SAIF Assessment Rate Schedule
Distribution: Insured Banks and Savings Associations
Note: Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, N.W., Room 100, Washington, D.C. 20434 ((703) 562-2200)