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

Division of Supervision

Regulatory Reporting

FIL-90-96
October 25, 1996

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Accounting for the SAIF Special Assessment and FICO Assessments*

The Deposit Insurance Funds Act of 1996 (Funds Act) was enacted on September 30, 1996. Among its provisions, the Funds Act:

- Requires that certain depository institutions pay a one-time special assessment to the Federal Deposit Insurance Corporation (FDIC) to capitalize the Savings Association Insurance Fund (SAIF) to its required reserve ratio. The special assessment is required to be applied against SAIF-assessable deposits held as of March 31, 1995.
- Exempts depository institutions with SAIF-assessable deposits that meet any of several specified criteria from paying the special assessment.
- Authorizes the Financing Corporation (FICO) to impose periodic assessments on depository institutions that are members of the Bank Insurance Fund (BIF) in addition to institutions that are members of the SAIF in order to spread the cost of the interest payments on the outstanding FICO bonds over a larger number of institutions. Until this change in the law, only SAIF-member institutions bore the cost of funding these interest payments.

The FDIC Board of Directors approved the imposition of a special assessment rate of 65.7 cents per $100 of SAIF-assessable deposits on October 8, 1996. On October 9, the FDIC mailed a statement to each institution subject to the SAIF special assessment showing the estimated amount of its special assessment, an explanation as to how that amount was calculated, and a copy of the Funds Act.

The federal banking agencies have received numerous inquiries about the accounting for the SAIF special assessment and FICO assessments, and agency staff members have discussed these accounting issues with the staff of the Financial Accounting Standards Board (FASB). Banks and savings associations should report these assessments in bank Reports of Condition and Income (Call Reports) and Thrift Financial Reports (TFRs) in accordance with generally accepted accounting principles (GAAP). The agency staffs' understanding of GAAP with respect to these assessments follows.

In November 1995, the FASB staff addressed the accounting for a potential special assessment on institutions with SAIF-assessable deposits in Emerging Issues Task Force Topic No. D-47, "Accounting for the Refund of Bank Insurance Fund and Savings Association Insurance Fund Premiums." The FASB staff stated that "institutions should not accrue a liability for a potential special assessment . . . until the period in which any proposed legislation is enacted." With the enactment of this legislation on September 30, 1996, the agencies believe that the accounting guidance in Topic No. D-47 is appropriate for institutions that do not qualify for an exemption from the assessment. Therefore, for Call Report and TFR purposes, institutions that are required to pay the SAIF special assessment should accrue a liability as of September 30, 1996. These institutions should report the offsetting charge as a component of noninterest expense in the quarter ended September 30, 1996. The charge to income should not be reported as an extraordinary item.

Institutions with SAIF-assessable deposits that are considered "weak institutions," as defined in the Funds Act, are exempt from paying the SAIF special assessment. The Funds Act requires weak institutions to pay deposit insurance premiums based on SAIF-assessable deposits held in periods after the date of enactment using the rate schedule that was in effect for SAIF assessments on June 30, 1995. The Funds Act contains no provisions that would require a weak institution to pay the SAIF special assessment. However, a weak institution may subsequently elect, with the authorization of the FDIC, to pay a pro rata portion of the SAIF special assessment, and then pay deposit insurance premiums under a different and lower rate schedule. A weak institution should report SAIF premiums as a period cost, and the institution should not accrue a liability for the SAIF special assessment until such time as it elects to pay the pro rata portion of the special assessment and the FDIC authorizes that institution to do so.

The Funds Act also expands the deposit base subject to FICO assessments to include all insured depository institutions rather than just SAIF-member institutions. Thus, BIF-member institutions will share in the cost of financing outstanding FICO bonds. An institution's FICO assessments will fluctuate based on a defined rate applied to deposits held in periods after the date the legislation was enacted. The Funds Act contains no provisions that would cause an amount relating to the FICO assessments on future deposits to become payable currently. Consistent with current practice, an insured institution should report the FICO assessments as period costs as they are incurred.

For further information, please contact the appropriate regional or district office of your primary federal regulator.

Joe M. Cleaver
Executive Secretary

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)