DETERMINATION OF ASSESSMENT RISK CLASSIFICATIONS

ASSIGNMENT OF CAPITAL GROUPS

Capital group assignments are made in accordance with section 327.4(a)(1) of the FDIC's Rules and Regulations. Capital ratios are calculated according to the methodology agreed upon by the Federal Financial Institutions Examination Council (FFIEC) Surveillance Task Force. The method uses data reported in an institution's Report of Income and Condition (Call Report), Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks, or Thrift Financial Report for the preceding September 30 to calculate the January 1 to June 30 semiannual period, and the preceding March 31 to calculate the July 1 to December 31 semiannual period. In general, no changes to capital ratios will be considered except for amendments to the previously mentioned reports.

Changes in capital group assignments for any assessment period resulting from amendments to reports are made only after appropriately filed amendments have been properly edited and analyzed. Any changes to capital group assignments resulting from these amendments are subject to verification.

The three capital groups are:

Group 1 - **Well Capitalized:**

Total Risk-Based Capital Ratio equal to or greater than 10 percent, and Tier 1 Risk-Based Capital Ratio equal to or greater than 6 percent, and Tier 1 Leverage Capital Ratio equal to or greater than 5 percent.

Group 2 - **Adequately Capitalized:**

Not Well Capitalized and Total Risk-Based Capital Ratio equal to or greater than 8 percent, and Tier 1 Risk-Based Capital Ratio equal to or greater than 4 percent, and Tier 1 Leverage Capital Ratio equal to or greater than 4 percent.

Group 3 - **Undercapitalized:**

Neither Well Capitalized nor Adequately Capitalized.

For insured branches of foreign banks, the capital groups are:

Group 1 - **Well Capitalized:**

The insured branch maintains the pledge of assets required under 12 CFR 347.210, and the branch maintains the eligible assets prescribed under 12 CFR 347.211 at 108 percent or more of the average book value of the insured branch's third-party liabilities for the quarter ending on the capital group cut-off date.

Group 2 - **Adequately Capitalized:**

Not Well Capitalized, and the insured branch maintains the pledge of assets required under 12 CFR 347.210, and the branch maintains the eligible assets prescribed under 12 CFR 347.211 at 106 percent or more of the average book value of the insured branch's third-party liabilities for the quarter ending on the capital group cut-off date.

Group 3 - **Undercapitalized:**

Neither Well Capitalized nor Adequately Capitalized.

ASSIGNMENT OF SUPERVISORY SUBGROUPS

Supervisory subgroup assignments for members of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) are made in accordance with section 327.4(a)(2) of the FDIC's Rules and Regulations, which provides as follows:

> "...each institution will be assigned to one of three subgroups based on the Corporation's consideration of supervisory evaluations provided by the institution's primary federal regulator. The supervisory evaluations include the results of examination findings by the primary federal regulator, as well as other information the primary federal regulator determines to be relevant. In addition, the Corporation will take into consideration such other information (such as state examination findings, if appropriate) as it determines to be relevant to the institution's financial condition and the risk posed to the BIF or SAIF."

The FDIC will assign a supervisory subgroup to each BIF or SAIF institution for each semiannual assessment period based on a variety of factors. These include:

- FDIC review of the results of the last examination finalized and transmitted to an institution on or before the cut-off date by the primary regulator;
- Review of other written findings that result in a composite rating change by the primary regulator;
- Review of the results of independent, joint or concurrent FDIC examinations finalized on or before the cut-off date;
- Results of offsite statistical analysis of reported financial statements; or<
- Analysis of other pertinent information.

In addition to the above factors, the FDIC recently announced refinements to the Risk-Related Premium System (RRPS) to provide a more flexible, forward-looking system that keeps pace with new and emerging risks. The intent of the refinements is to use offsite information to identify institutions with atypically high-risk profiles among those in the best-rated premium category, and to determine whether there are unresolved supervisory concerns regarding the risk-management practices of these institutions. Where such concerns are present, the institutions will be given an opportunity to address the cited deficiencies with risk-management practices before higher premiums are assessed. For more information regarding these enhancements to the RRPS, refer to FIL-7-2000, "Deposit Insurance Assessments," dated February 4, 2000.

The three supervisory subgroups are:

Subgroup A This subgroup consists of financially sound institutions with only a few minor weaknesses and **generally** corresponds to the primary federal regulator's composite rating of "1" or "2."

Subgroup B This subgroup consists of institutions that demonstrate weaknesses that, if not corrected, could result in significant deterioration of the institution and increased risk of loss to the BIF or SAIF. This subgroup assignment **generally** corresponds to the primary federal regulator's composite rating of "3."

Subgroup C This subgroup consists of institutions that pose a substantial probability of loss to the BIF or the SAIF unless effective corrective action is taken. This subgroup assignment **generally** corresponds to the primary federal regulator's composite rating of "4" or "5."

The authority to set dates applicable to the determination of supervisory subgroups has been delegated to the Corporation's Director of the Division of Supervision (DOS), or his or her designee. The Director has determined that the cut-off dates for assessment periods beginning January 1 will be the preceding September 30, and for the assessment period beginning July 1, the cut-off date will be the previous March 31. Note that the cut-off date relates to the date the composite rating is transmitted in writing to the institution, and **not** to the examination "as of" date, the date of financial statements used in the examination, the examination starting or closing date, or the date of exit meetings with management or the board of directors.

OTHER ASSESSMENT RISK CLASSIFICATIONS

Bridge banks and institutions for which the FDIC has been appointed conservator are assigned RRPS assessment risk classifications of Capital Group 2, Supervisory Subgroup A.

New or de novo institutions beginning operations after the cut-off date for determining RRPS capital groups will be assigned to Capital Group 1. In general, such institutions also will be assigned to Supervisory Subgroup A, unless a different subgroup is warranted based upon a review of the institution using the criteria for assigning supervisory subgroups.

For institutions merging after the capital group cut-off date with institutions having different capital group classifications, the capital group classification of the surviving entity will be assigned based on a pro-forma calculation of the applicable ratios derived from the official reports filed as of the required cut-off date. For example, for the July 1, 2000, semiannual assessment period, if an institution with a capital group assignment of "1" merges with an institution with a capital group assignment of other than "1" during the period April 1, 2000, to June 30, 2000, the capital group classification of the surviving institution will be based on the filed reports for each involved institution as of the cut-off date (March 31, 2000, in this case). A pro-forma calculation of the applicable ratios will then be made to determine the capital group classification of the surviving entity.

REQUESTS FOR REVIEW

Institutions have the right to request a review of their assessment risk assignments. The review process is primarily designed for instances in which an institution's supervisory subgroup assignment **differs** from what would be likely considering the finalized composite rating most recently assigned and communicated to the institution in writing prior to the cut-off date. It is not intended as a means for an institution to dispute the composite rating assigned to the institution by its primary federal regulator. Each federal regulator has established procedures for that purpose.

In a limited number of review requests, there may be a need for a meeting with representatives of the FDIC's DOS or Division of Insurance. The Director or Regional Director who will determine whether a meeting would be productive will consider any such requests.

Request-for-Review Procedures

Cases in which an institution's supervisory subgroup assignment differs from what would be likely considering the finalized composite rating most recently assigned and ***communicated in writing by its primary federal regulator on or before the cut-off date****.*

An institution will be advised that it met the above criteria via a separate special notice that accompanies its assessment rate notification letter. Institutions will initiate the request-for-review process by completing and returning the notice within 90 days of the notification date.

1. Upon receipt of the notice, the appropriate FDIC Regional Director will provide the institution with a basis letter describing why the supervisory subgroup assigned by the FDIC differs from that which would normally result given the composite rating assigned by the primary federal regulator as of the cut-off date.

2. If an institution is not satisfied by the explanation provided in the basis letter, it may request that the FDIC Regional Director conduct a review of the appropriateness of the assigned supervisory subgroup. This request should be initiated by the institution within 30 days of receipt of the basis letter. Regional Directors will review and consider information provided by the institution, its primary federal regulator or other sources. The focus of the review will be FDIC's perceived risk profile of the institution as of the cut-off date.

3. If, after considering the determination of the FDIC Regional Director, the institution continues to question the appropriateness of the assigned supervisory subgroup, it may request that further review be conducted by the FDIC's DOS Director. This request should be initiated by the institution within 30 days of receipt of the FDIC Regional Director's findings discussed above. The DOS Director will consider information as described in the paragraph above.

4. The DOS Director will make a decision to grant, deny or refer to the FDIC Assessment Appeals Committee (AAC) any such requests for review described in paragraph 3 above. If the DOS Director denies the request, the institution will be advised of its right to request a final review by the AAC.

5. The AAC will promptly conduct its review, and determine the final disposition of the request for review. The institution will be notified in writing of the final determination.

Other Situations

There will be other instances in which institutions will request a review of their capital group and supervisory subgroup assignments for reasons other than described above.

All other requests for review must be:

- In writing and sent via mail or commercial carrier to:

Director, Division of Insurance
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

ATTN: Assessments Implementation Section
Room 4002

- Postmarked or dated by commercial carrier within 90 days of the date of the assessment risk classification notice. To ensure proof of mailing, institutions may wish to send requests for review by certified or registered mail or commercial carrier; and

- Sufficiently documented to support the reclassification sought by the institution.

Requests for review, or for reclassification, may be rejected for reasons that include:

- The appropriate resolution is an amendment to Call Reports or Thrift Financial Reports. Capital group assignments and reassignments are generated from information provided by institutions in Call Reports and Thrift Financial Reports and in subsequent amendments. In certain instances, the formula used by the FDIC to estimate risk-based capital ratios for institutions not completing items 4-9 and Memorandum item 1 of Call Report Schedule RC-R (Risk-Based Capital) may result in a less favorable capital group assignment. An institution seeking a capital group reassignment based on this factor must amend its Call Report by completing and filing a Schedule RC-R in its entirety;

- Improvements in capital ratios occurring after the applicable Call Report or Thrift Financial Report cut-off date;

- Requests based on capital ratio formulas established by other regulations;

- A supervisory subgroup assignment is consistent with the composite rating most recently assigned to the institution under the Uniform Financial Institutions Rating System and of which the institution was notified in writing by its primary federal regulator on or before the established cut-off date. (Note: The cut-off date relates to the date by which composite ratings are transmitted in writing to an institution; thus, the cut-off date pertains to the **transmittal date**, and **not** to the examination **"as of" date**);

- Changes occurring after the applicable cut-off dates;

- The request for review is not provided in writing; or

Any additional information requested by the FDIC is not provided by the institution in writing or is postmarked or dated by commercial carrier later than 21 days from the date of the request for the information.