FDIC NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

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FDIC SEEKS COMMENTS ON REVISIONS TO CAPITAL RULES
THAT WOULD GAUGE INTEREST RATE RISK

The FDIC Board of Directors today agreed to seek public comment on proposed revisions to its capital rules to ensure that banks measure and monitor their interest rate risk and maintain capital adequate to the risk. Section 305 of the FDIC Improvement Act of 1991 requires the three federal bank regulatory agencies to revise risk-based capital standards to take adequate account of interest rate risk.

Public comment was sought by the three agencies on a proposed framework for measuring interest rate risk through an advance notice of proposed rulemaking in August, 1992. The comments received were considered in preparing this proposed rule.

Under the proposal, an institution's exposure to interest rate risk would be measured by the change in the bank's capital that occurs as interest rates change. To measure this exposure, a supervisory model would be used. Alternatively, an institution's internal model could be used when available and approved as adequate during the bank examination process. For institutions that have high levels of interest rate-risk exposure, two methods are proposed for determining what amount of additional capital, if any, a bank may be required to have for interest rate risk.

One method would reduce an institution's risk-based capital ratios by an amount based on its measured interest-rate risk exposure above a supervisory threshold. The second would assess the need for capital on a case-by-case basis, considering both the results of the model and qualitative risk factors.

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William A. Stark, Assistant Director of the FDIC's Division of Supervision, said: "Our goal is to develop a system which ensures there is sufficient capital to protect banks from interest-rate risk in cases where excess risk exists."

The FDIC and the other regulatory agencies are seeking to balance the need for additional information with concerns about limiting paperwork and other burdens on the industry. As a result, the agencies are proposing a screen to filter out banks that are potentially low-risk institutions from additional reporting requirements. Based on data for December 31, 1992, the agencies estimate approximately 8,400 institutions, with about 30 percent of the assets in commercial banks, would be exempt from reporting.

The proposed rule issued by the FDIC Board applies only to state-chartered banks that are not members of the Federal Reserve System. It is identical to proposals under consideration by the Federal Reserve Board and the Office of the Comptroller of the Currency. Comments will be accepted for 45 days after the notice appears in the Federal Register.

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