FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-77-92 (5-12-92)

FDIC PROPOSES INCREASE IN BANK AND THRIFT INSURANCE FEES; SEPARATE PROPOSAL WOULD ESTABLISH TRANSITIONAL "RISK-RELATED" PREMIUM SYSTEM

The FDIC Board of Directors today issued for public comment proposals that would increase the premiums that banks and savings associations pay for deposit insurance. Separately, the Board also requested comment on a proposed deposit insurance premium system that would, for the first time, charge higher rates to those institutions that pose greater risks to the insurance funds.

The premium increase proposals are intended to raise the reserves of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires the FDIC to boost insurance fund reserves to $1.25 for every $100 of insured deposits. Official audits of the BIF and SAIF are still being conducted, but the most recent information indicates that the funds' ratios are substantially below the target levels. The BIF is likely to have finished 1991 with a deficit of about $7 billion, while the SAIF's reserves at year-end 1991 were approximately zero.

The separate proposal for risk-related premiums is intended to make the deposit insurance system fairer to well-run institutions and encourage weak institutions to improve their condition.

Currently, all FDIC-insured institutions pay the same premium (now 23 cents per $100 of domestic deposits) regardless of the riskiness of their operations. This flat-rate deposit insurance system had been mandated by law. However, in December 1991 Congress enacted the FDIC Improvement Act that requires the agency to implement a permanent, risk-related premium system by January 1, 1994.

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The FDIC Board proposed raising the BIF and SAIF premium rates from 23 cents per $100 of domestic deposits to 28 cents per $100. Separately, the Board proposed to implement a transitional risk-related system starting January 1, 1993, a year ahead of the January 1, 1994, deadline for adopting a permanent system. The FDIC would place each insured institution in one of nine risk categories based on their level of capital and other relevant information. Under the proposed transitional rule, there would be a six basis point spread between the highest and the lowest premiums. Based on the proposed premium increase to 28 cents per $100, the strongest would pay 25 cents per $100 and the weakest would pay 31 cents per $100. The vast majority of institutions likely would pay at the average rate of 28 cents or less. However, FDIC staff expects to recommend that the permanent risk-related premium system, to be implemented in 1994, incorporate a wider difference between the highest and the lowest premium rates, as well as semiannual or annual increases in premium rates for high-risk institutions.

Each insured institution would be assigned to one of three capital groups (well capitalized, adequately capitalized or less than adequately capitalized) to be defined by the federal banking agencies. Within the capital groups, the FDIC then would assign each institution to one of three subgroups based on its evaluation of the risk posed by the institution. The FDIC would base this judgment on evaluations by the institution's primary federal or state supervisor, statistical analyses of financial statements and other information relevant to gauging the risk posed by the institution. These supervisory evaluations would be used to modify premium rates within each capital group.

FDIC officials believe this two-part evaluation of risk is important for several reasons. Basing part of the evaluation on capital ratios would give weak institutions a financial reward (i.e., lower deposit insurance premiums)

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for improving their condition in a clearly defined manner. Also, the higher an institution's capital ratio, the greater is the FDIC's cushion against loss and the more the institution's owners have at stake in its safe and sound operation. However, reported capital ratios alone may not adequately reflect the risk posed by the institution. Factors such as asset quality, loan underwriting standards and other operating systems are best evaluated as part of the ongoing supervisory monitoring process.

The FDIC is asking for comment on all aspects of the proposal, including: whether to begin a transitional risk-related system prior to the statutorily mandated date for the permanent system on January 1, 1994; how an appeals process should be established for institutions wishing to challenge their risk classification; whether risk-related premiums should be assigned to institutions by purely statistical factors such as capital, earnings and problem loan levels, without any room for supervisory evaluations; and whether the FDIC's risk assessments for each institution should be kept confidential.

The proposals announced today would affect insurance premium rates for about 12,000 commercial banks and nearly 500 savings banks that are BIF members, and approximately 2,000 thrift institutions that are SAIF members. Most insured institutions are expected to be classified as well capitalized and healthy under the proposal.

Comments on the proposed premium increases and the separate proposal for a transitional risk-related premium system will be accepted for 60 days after publication in the Federal Register.

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