NEWS RELEASE

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FDIC TO SEEK COMMENT ON NEW CONCEPT FOR IDENTIFYING BANKS WITH HIGH LEVELS OF INTEREST RATE RISK

The FDIC Board of Directors has agreed to seek public comment on a proposed new system for identifying banks that face excessive risk from swings in market interest rates. The proposal, still in its early stages of development by the three federal bank regulatory agencies, would require certain banks with high levels of interest rate risk to increase their capital to cover their "excess" exposure to loss.

The risk of loss from interest rate changes is an inherent part of the banking business and has not been a major threat to the health of commercial banks to date. However, Congress and the regulatory agencies agree that there should be clearer standards in this area to help protect the federal insurance funds. A provision of the FDIC Improvement Act of 1991 requires the federal banking agencies to revise existing risk-based capital standards to take adequate account of interest rate risk. A final rule must be published by June 19, 1993. The regulators estimate that when a final rule is adopted, approximately 20 percent of the nation's commercial banks could face an additional minimum capital requirement as a result of high interest rate risk exposure.

The plan being published for comment is in the form of an advance notice of proposed rulemaking. Based on the comments received, the agencies will issue a proposed regulation for another round of public comments before issuing a final rule. Although a specific plan for addressing interest rate risk is being put forth at this time, FDIC officials stressed that the agencies are just beginning the rulemaking process and are open to suggestions.

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The plan is to expand the quarterly financial reports filed by FDIC-insured banks to give a more detailed account of the assets and liabilities scheduled to mature or undergo interest rate adjustments in the future. This would include more information on interest rate swaps, futures contracts and other off-balance sheet items. A formula would project and quantify the effects of a 100 basis point change in interest rates. A bank identified as having a high level of interest rate risk would be required to cover its projected excess exposure with a proportional amount of capital. For some banks, that could mean raising capital above their existing levels.

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 such, the agencies are asking for suggestions about how to implement an exemption for institutions clearly identified as clearly having low interest rate risk.

William A. Stark, an Assistant Director of the FDIC's Division of Supervision, said: "The goals of the regulators in developing this new measurement system are to determine the effects of rate changes on the long-term solvency of a bank and, when excessive risk is being taken, to ensure that the bank is operating at capital levels sufficient to support that risk."

The bulk of the notice being issued for comment relates to interest rate risk. However, the agencies also are seeking general input about implementing other provisions of the 1991 law that address the risks from concentrations of credit and from nontraditional activities.

The plan issued by the FDIC Board applies only to state-chartered banks that are not members of the Federal Reserve System. It is identical to what is being developed by the Federal Reserve Board and the Office of the Comptroller of the Currency for the banks they regulate. Comments will be accepted for 60 days after the notice appears in the Federal Register.

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