FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC SETS DEPOSIT INSURANCE FEES BASED ON AN INSTITUTION'S RISK, INCREASES PREMIUMS FOR CERTAIN BANKS AND THRIFTS STARTING IN JANUARY

The FDIC Board of Directors today agreed on a system that, for the first time, will charge higher insurance rates to those banks and savings associations that pose greater risk to the deposit insurance funds.

Currently, all FDIC-insured institutions pay the same premium (now 23 cents per $100 of domestic deposits) under a flat-rate system mandated by law. However, more recent laws require the FDIC to raise the reserves of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), implement a risk-related premium system, and adopt a long-term schedule for recapitalizing the BIF. As a result, the Board today voted on a new system that will make higher-risk banks and thrifts pay more into the insurance funds than other institutions.

Under the new rule, which goes into effect January 1, 1993, a bank or thrift will pay within a range of 23 cents per $100 of domestic deposits (the current rate for all institutions) to 31 cents per $100 of domestic deposits, depending on its risk classification. The FDIC projects that about 75 percent of the 12,000 BIF-insured commercial banks and savings banks (with 51 percent of the deposit base) and 60 percent of the 2,300 SAIF-insured thrifts (with approximately 43 percent of the deposit base) will be in the lowest-rate paying group when the new system starts in January. Only about 220 banks (two percent of all insured commercial and savings banks) and 160 thrifts (seven percent of all insured thrifts) are expected to be in the group paying the highest insurance rate. The FDIC estimates that banks will pay an average rate of about 25.4 cents per $100, compared to 25.9 cents per $100 for thrifts.

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Although the new risk-based system and the rate schedule were adopted as final, the FDIC Board agreed to meet again later this year to consider whether changes in economic or industry conditions would warrant adjustments in the range of assessment rates to be charged in January.

FDIC Chairman Andrew C. Hove, Jr., said: "The FDIC's objectives are very clear. We need to increase revenue to strengthen the insurance funds while being sensitive to the costs that revenue increases impose on our insured institutions. And we need to make the deposit insurance system fairer by rewarding well-run institutions and encouraging weak institutions to improve. We believe the premium structure the FDIC is putting in place to meet these objectives will be straightforward, feasible, fair and effective."

Chairman Hove added that he expects the Board will meet at least every six months to review premium rates in light of industry conditions and economic projections. "It is crucial that the structure we adopt provides the FDIC with the flexibility and the resources to address whatever uncertainties -- good and bad -- the future may bring," he said.

The reserves of the BIF and SAIF now are substantially below the long-range target levels set by Congress in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). That law requires the FDIC to boost insurance fund reserves to $1.25 for every $100 of insured deposits. According to preliminary information from the FDIC, the BIF at June 30, 1992, had an unaudited fund balance of negative $5.5 billion (or a negative 28 cents for every $100 of insured deposits). Mid-year financial results for SAIF have not been finalized, but at year-end 1991 its audited balance was $87 million.

To arrive at a risk-based assessment for each bank and thrift, the FDIC will place it in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information.

Each institution will be assigned to one of three groups (well capitalized, adequately capitalized or undercapitalized) based on its capital ratios. A well-capitalized institution is one that has at least a 10 percent "total risk-based capital" ratio (the ratio of total capital to risk-weighted assets), a six percent "Tier-1 risk-based capital" ratio (the ratio of Tier 1 or "core" capital to risk-weighted assets) and a five percent "Tier-1 leverage capital" ratio (the ratio of Tier 1 capital to total assets). An adequately capitalized institution will have at least an eight percent total risk-based capital ratio, a four percent Tier-1 risk-based capital ratio and a four percent Tier-1 leverage capital ratio. An undercapitalized institution will be one that does not meet either of the above definitions. These capital definitions are identical to those being used by the four federal bank and thrift regulators for use in the "prompt corrective action" regulation separately adopted today, except the premium rule excludes references to supervisory evaluations and directives that are included in the other regulation.

The FDIC also will assign each institution to one of three subgroups based on an evaluation of the risk posed by the institution. The FDIC will make this evaluation based on reviews 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 therefore will modify premium rates within each of the three capital groups -- the result being the nine risk categories and the corresponding assessment rates as follows:

	Supervisory Subgroup		
Meets numerical standards for:	A	B	C
Well Capitalized	23	26	29
Adequately Capitalized	26	29	30
Undercapitalized	29	30	31

There are several reasons the FDIC Board opted for a two-part risk evaluation method. The capital ratio component is important because it gives a weak institution a financial reward (i.e., lower deposit insurance premiums) for improving its condition in a clearly defined manner. A higher capital ratio also better protects the FDIC against loss and gives the institution's owners a greater stake in a sound operation. However, numerical 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. It is expected that a system based in part on supervisory evaluations will lead to fewer inequities in the pricing of risk than a system based solely on financial data. The final rule also includes an appeals process for institutions that wish to challenge a risk classification.

Congress in the FDIC Improvement Act of 1991 mandated that a risk-based assessment system be implemented no later than January 1, 1994. The system being put in place this coming January is intended to provide for a transition between the current flat-rate system and the final risk-related premium system to be implemented in 1994.

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