FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-177-92 (12-15-92)

FDIC SEEKS COMMENT ON CHANGES IN RISK-RELATED PREMIUM SYSTEM FOR 1994

The FDIC Board of Directors today requested public comment on what changes, if any, the agency should make in its new risk-related premium system for insured banks and savings associations. The agency in particular is seeking comment on pricing changes that would better reward low-risk institutions and encourage weak institutions to improve.

The new risk-based premium system, which was adopted in September, will go into effect without changes on January 1, 1993. However, that system was intended to provide a one-year transition between the current flat-rate system (i.e., all institutions pay the same insurance rate) and a system of risk-related premiums that Congress in 1991 mandated be in effect by January 1, 1994. Although experience implementing the transitional system is limited, the FDIC Board today asked for public comment on possible refinements that could be put in place for the next phase to start in 1994. A final regulation must be issued by July 1, 1993, for changes to be put into effect January 1, 1994.

Under the transitional system that starts this coming January 1, a bank or thrift will pay a deposit insurance fee within a range of 23 cents per $100 of domestic deposits (the current rate for all institutions under the flat-rate system) to 31 cents per $100 of domestic deposits, depending on its risk classification. The FDIC projects that about 76 percent of the 12,000 insured commercial banks and savings banks (54 percent of the assessment base) and 64 percent of the 2,300 insured thrifts (48 percent of the assessment base) will be in the lowest-rate paying group. Only about two percent of insured banks and six percent of insured thrifts are expected to pay the highest rate.

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The most significant areas in which the FDIC is encouraging public comment include whether to:

- o Establish a new category of "minimal-risk institutions" that would be rewarded for their good financial condition by paying less than the current minimum rate of 23 cents per $100. If such a group should be established, the FDIC also is asking how it should be defined. One definition being explored involves a two-part test. First, the institution would have certificates of deposit rated "AAA" by a nationally recognized rating agency or capital ratios that exceed those required for "well capitalized" institutions by 50 percent. Second, the FDIC would have to judge the risk posed by the institution to be minimal.
- o Widen the spread of deposit insurance fees beyond those in the new system (i.e., below 23 cents per $100 for the lowest-risk institutions and above 31 cents per $100 for the highest-risk ones) and, if so, by how much. This would provide additional rewards for healthy institutions as well as additional incentives for weak institutions to improve.
- o Expand the number of risk categories from the nine in the new system. This would provide for a greater diversity of rates paid within the overall range, thereby reducing the premium increment between insurance groups. For example, under the current system, premiums rates jump from 23 cents per $100 for the lowest risk banks to 26 cents per $100 for the next grouping. One advantage of a more "continuous" rate schedule would be that judgment errors in assigning risk classifications would be less costly to an institution.

Written comments on the FDIC proposal will be accepted for 120 days after it appears in the Federal Register.

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