Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

Division of Supervision

Insurance Assessments

FIL-40-96
June 11, 1996

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Assessment Rates for the Second Semiannual Assessment Period of 1996*

The FDIC Board of Directors voted on May 14, 1996, to maintain the existing assessment rates on deposits assessable by the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) for the second semiannual assessment period of 1996. Attached are overviews of the assessment rates for BIF- and SAIF-insured institutions, as well as the Federal Register notices explaining the Board's decisions.

BIF Assessment Rates

For the second semiannual period of 1996, insured institutions will continue to pay annual assessment rates ranging from 0 to 27 cents per $100 of BIF-assessable deposits, subject to the statutory requirement that all institutions pay a minimum of $2,000 annually for federal deposit insurance (Attachment A). Based upon year-end 1995 data, these rates would result in an average annual BIF assessment rate of approximately 0.29 cents per $100 of assessable deposits and would generate annual revenues of approximately $72 million.

In setting BIF assessment rates, the Board sought to balance three requirements: (1) the long-run funding requirements of the BIF, (2) the statutory requirement to maintain a risk-based deposit insurance system, and (3) the statutory requirement to maintain the BIF reserve ratio at the target Designated Reserve Ratio (DRR). Although historical experience suggests that an effective assessment rate of four to five cents per $100 of domestic deposits is appropriate over the long run, the Board determined that the highest-rated institutions should be charged the minimum assessment for the second semiannual period of 1996 given current industry conditions, the financial health of the BIF and the statutory requirement to maintain the target DRR.

The BIF reserve ratio stood at 1.30 percent (unaudited) as of December 31, 1995, and it is likely that the ratio will remain above the 1.25 percent target throughout 1996 if insurance losses and deposit growth vary within their historical ranges. Not captured in the historical ranges for these variables, however, is a significant possibility of high BIF-insured deposit growth arising from two sources: (1) a substitution of deposits for other types of funding in response to the dramatic reductions in BIF assessment rates during the second half of 1995; and (2) a substantial increase in deposit migration from the SAIF to the BIF, due to the prospect of a long-term, large premium differential between the insurance funds and uncertainty related to the future stability of the SAIF.

Despite these concerns, the Board decided not to adjust BIF assessment rates at this time. Rather, deposit flows and trends in deposit growth rates will be monitored closely in preparation for future decisions regarding BIF assessment rates.

In the interim, existing rates will be maintained by utilizing the "adjustment factor" established in August 1995, which permits the Board to change assessment rates by a maximum of five cents without first seeking public comment. The adjustment factor was employed in November 1995 to reduce BIF assessment rates to their current levels, and it again has been employed in order to maintain existing assessment rates for the second semiannual period of 1996, as explained in the attached Federal Register notice.

SAIF Assessment Rates

SAIF members will continue paying premiums on a risk-related basis of 23 cents per $100 to 31 cents per $100 of assessable deposits, as shown in Attachment B. The average rate is expected to be 23.4 cents per $100 of assessable deposits. Because the SAIF remains seriously undercapitalized, SAIF members will continue to pay higher rates than BIF members.

At year-end 1995, the SAIF had a balance of nearly $3.4 billion, or about 47 cents in reserve for every $100 of insured deposits, and needed an additional $5.5 billion to be fully capitalized. At the current pace and under reasonably optimistic assumptions, the SAIF is not expected to reach the minimum reserve ratio of 1.25 percent until 2001.

The thrift industry is healthy today, and no large thrifts are expected to fail in the near future. However, it is not known how much longer the present favorable conditions can continue, and it would be prudent for the SAIF to be fully capitalized as quickly as possible to be prepared for future uncertainties.

Moreover, the SAIF continues to face major problems that must be addressed successfully before SAIF premiums can be lowered. Notably, the premium disparity between SAIF and BIF assessment rates, which currently is about 23 cents per $100 of assessable deposits, creates an incentive for institutions to reduce their SAIF-assessable deposits. Although a shrinking SAIF assessment base would accelerate the capitalization of the SAIF, it would exacerbate the problems facing the SAIF by reducing its ability to diversify risk.

Pending enactment of a comprehensive legislative solution to the problems of the SAIF, the Board determined that the current SAIF assessment rate schedule should be maintained.

For more information, please contact any of the FDIC staff members listed in the two attached Federal Register notices on pages 26078-26079, and page 26083, respectively.

Arthur J. Murton
Director

Attachment:
BIF: PDF Format (118 kb, PDF help or hard copy), HTML Format
SAIF: PDF Format (138 kb, PDF help or hard copy), HTML Format

Distribution: Insured Banks and Savings Associations