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TESTIMONY OF

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WASHINGTON, D.C.

ON

THE CONDITION OF THE BANKING INDUSTRY AND THE BANK INSURANCE FUND

BEFORE THE

COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

12:00 P.M.
JUNE 30, 1992
ROOM 2128, RAYBURN HOUSE OFFICE BUILDING

Mr. Chairman and members of the Committee, I appreciate the opportunity to testify today on the condition of the banking industry and the Bank Insurance Fund.

CONDITION OF THE BANKING INDUSTRY

Recent banking industry performance has displayed some positive elements. Most notably, in the first quarter of 1992, the industry's net income reached an all-time quarterly record of $7.6 billion. Attachment 1 is our Quarterly Banking Profile for the first quarter of 1992 which presents the quarter's results in detail. During the first quarter of 1992, more than 93 percent of insured commercial banks were profitable as compared with 89 percent in 1991. Moreover, almost three-quarters of the banks reported improved earnings compared with their 1991 results. In 1991, insured commercial banks reported $18.6 billion in net income, up $2.4 billion over their 1990 earnings.

Annualized first quarter results for 1992 indicate that commercial banks averaged a 0.88 percent return on assets, the highest quarterly average since the second quarter of 1989. The average return on assets for 1991 was 0.56 percent. By way of comparison, the average return on assets for commercial banks for the 1980s was 0.59 percent. The high was 0.82 percent in 1988, and the low was 0.12 percent in 1987.

Even savings banks as a group showed a profit in the first quarter of 1992, albeit a much more modest total of $176 million. This is the first quarterly profit reported for these institutions since the first quarter of 1989. BIF-insured savings banks lost $1.2 billion during 1991. Thirty-three percent of all BIF-insured savings banks were unprofitable during the year. Nineteen of the institutions, with total assets of $19.5 billion, failed in 1991. The improved savings bank statistics so far in 1992 are attributable in part to FDIC resolutions of some of the most troubled savings banks and in part to improvement in some of the remaining institutions.

Over the past year, the banking industry has benefited from low interest rates which allowed banks to earn more positive interest spreads. Lower rates also provided borrowers with increased opportunities to refinance in the private debt and equity markets. The favorable rate conditions also made possible large profits from sales of investment securities.

In addition to low interest rates, another important factor contributing to the earnings improvement in 1991 and early 1992 was that, unlike the previous two years, there was no significant increase in the industry's inventory of troubled loans. Moreover, there have been improvements in certain regions of the country's economy.

Commercial banks' capital positions also have improved. Total equity capital increased by $13.5 billion in 1991, which helped to raise the average equity-to-assets ratio to 6.77 percent, the highest year-end level since 1971. By the end of the first quarter of 1992, the average equity-to-assets ratio had risen to 6.96 percent. All of these are positive and welcome signs.

These results, however, belie the continued existence of underlying difficulties. There is concern that low interest rates may extend the lives of some institutions, but not save them. In addition, there is continued concern over real estate markets.

Asset growth in commercial banks was weak. Total assets at insured commercial banks grew by only 1.2 percent in 1991, the smallest percentage since 1948. Total loans and leases held by commercial banks declined in every quarter of the year, reflecting tightened lending standards, asset-quality troubles and slack loan demand. This trend continued into 1992. Most of the loan shrinkage was in commercial and industrial loans, which declined by $58.8 billion. The total amount of real estate loans grew by only $21.6 billion. By way of comparison, the total real estate loan increases in 1990 and 1989 were $68 billion and $86 billion, respectively.

The assets of banks that failed during 1991 -- $63 billion -- were greater than for any previous year in history. Furthermore, at year-end 1991, $600 billion in assets were held by problem banks, 50 percent more than one year ago. This is 17 percent of the industry's total assets. Indeed, despite the enormous volume of problem-bank assets removed from the system through FDIC resolution activity, the percent of industry assets in problem banks has doubled since the mid-1980s.

Bank exposure to weakened real estate markets remains substantial. Although banks do not appear to be booking the kinds of speculative real estate-related loans that resulted in the problems of the past decade, exposure to loans already on the books will continue. Commercial banks hold almost $400 billion in loans secured by commercial real estate. Because of the overbuilding of the 1980s, these loans are of concern. At the end of 1991, nearly 14 percent of construction loans held by commercial banks were past due at least 90 days or had been placed on nonaccrual status.

Vacancy rates for office buildings remained high nationally -- over 19 percent -- through 1991. In contrast, in 1981, the office building vacancy rate was approximately five percent. Retail vacancy rates in major metropolitan areas also have stayed at high levels. These concerns about the continuing oversupply in the property markets extend to activities abroad.

Although the nation appears to be emerging from the recession, regional problems remain. Real estate problems in the Southwest have abated, but the gradual recovery experienced by the region suggests that weak real estate markets in other parts of the country will emerge slowly from their problems. The Southwest experience presages slow recoveries for the Northeast, where the real estate problems have been evident for some time, and for the West, where the problems have appeared more recently.

Outlook

The signs of improved banking industry profitability and capitalization over recent months need to be viewed with some degree of caution. As mentioned earlier, the improvements have occurred in a favorable interest-rate environment that has increased the banks' interest rate margins and provided institutions with the opportunity to book gains from asset sales. Whether these favorable conditions will persist is difficult to predict. A sudden change to a less favorable interest-rate environment could produce problems that are not currently part of the landscape. In recent years, banks have increased their off-balance-sheet activities and their investments in highly sophisticated derivative products, such as collateralized mortgage obligations. It is important that banks understand the risks of these instruments as certain of the risks contained in these instruments become more apparent during periods of changing interest rates.

Taking a longer-term perspective, the U.S. banking industry has experienced a trend toward consolidation over the past decade. This long-term consolidation trend will likely continue. To the extent that consolidation occurs through the successful merging of healthy organizations or the acquisition of weaker institutions by stronger ones -- and is designed to achieve cost savings and realize market synergies -- the trend could have positive aspects. However, the regulators must be alert to possible adverse effects of the consolidation trend. When consolidations result in increased competition, bankers may take greater risks to remain competitive. Increased risk-taking carries with it the potential for mistakes.

CONDITION OF THE BANK INSURANCE FUND

Financial Results for 1991

The Bank Insurance Fund's audited financial statement for 1991 is found in Attachment 2. The Fund ended 1991 with a deficit of approximately $7 billion. Revenues totaled about $5.8 billion in 1991, an increase from $3.9 billion the previous year. Allowances for insurance losses and operating expenses, however, totaled $16.9 billion. In the past, the major source of income to the Bank Insurance Fund was assessments collected from insured banks and interest on its investment portfolio of U.S. Treasury securities. We no longer have much investment income; thus, our main source of income is limited to insurance assessments.

Banks that failed in 1991 are expected to cost the Bank Insurance Fund $7.4 billion. Provisions for the majority of this expected loss were taken in 1990. An additional provision for unresolved insurance losses of $15.4 billion was charged against income in 1991, bringing our reserve for unresolved cases to $16.3 billion at year-end 1991.

During the first quarter of 1992, 35 banks with total assets of $19 billion failed. The loss estimated for these institutions is approximately $2.3 billion, virtually all of which had been reserved for in 1991.

Our unaudited balance for the Bank Insurance Fund for the first quarter of 1992 shows virtually a break-even balance. Assessments revenues of $1.4 billion were offset by provisions for estimated future losses on failed banks, administration, and interest expenses. The fund remains at approximately a $7 billion deficit. The FDIC has borrowed $15.1 billion from the Federal Financing Bank for working capital purposes and expects to borrow shortly from the Treasury for loss funds.

Future Outlook

Attempting to make an informed judgment as to the condition of the Bank Insurance Fund requires overcoming enormous uncertainty regarding the factors that influence costs and revenues. In particular, forecasts must be made regarding the likely state of the national, regional and local economies and real estate markets, the likely impact of these conditions on bank losses, the number of bank insolvencies and the probable cost of these failures. In short, the condition of the Bank Insurance Fund is dependent upon a complex series of events that is difficult to forecast with confidence.

For the past several years, the FDIC has prepared an estimate of bank failures for internal planning purposes. The regional offices of our Division of Supervision, based upon their supervisory knowledge of the institutions in their regions, project those failures on a bank-by-bank basis. Our Division of Research and Statistics uses this information in conjunction with developing economic trends and research modeling to calculate projected insurance losses to the Fund. Last Fall, the FDIC published projections indicating that a continued high level of insurance losses was anticipated in 1992 and 1993.

Currently, there is discussion within the FDIC over how much weight to give recent positive trends. Some believe the 1992 and 1993 bank failure forecasts should be revised downward. Others believe that not enough progress has been made to justify new projections. For the present, I must say that I fall in the more cautious camp, although progress on a number of fronts is undeniable. On the positive side, the dividend payout rate is down, a number of large companies have been successful in raising new equity, capital ratios continue to improve, a number of difficult situations have turned for the better, and first quarter earnings were substantial. Weighing in on the more cautious side are the continuing difficulties in the area of commercial real estate lending, the high level of nonperforming assets, and the historically high number and total assets of banks on the problem list. It may be that improved conditions have the effect of postponing the need or ability to close some institutions. However, it is not yet clear that the affected institutions are fully out of danger, so we prefer to be cautious. Indeed our 1991 reserve for future losses clearly indicates this caution. In effect, we have already accounted for future failures by recognizing this level of loss through our reserves.

As required by FDICIA, the FDIC recently proposed a recapitalization schedule that shows the BIF achieving the designated reserve ratio of 1.25% of insured deposits within 15 years. While staff has prepared long-term projections consistent with the statutory mandate, we must all recognize that any forecasts beyond a year or so are highly uncertain. As a result, the FDIC Board will review the projections at least semi-annually, and adjust assessment rates or revise the schedule as appropriate.

Proposed Premium Increase

In May 1992, the FDIC's Board of Directors voted to propose an increase in the Bank Insurance Fund assessment from the current 23 cents to 28 cents per $100 of assessable deposits, effective January 1, 1993. Our proposed regulation is included as

Attachment 2. Two reasons argue in favor of an increase. First, the Federal Deposit Insurance Corporation Improvement Act of 1991 mandates that the Bank Insurance Fund reach the reserve ratio of 1.25 percent of insured deposits within 15 years. Although this mandated long-term goal was in our minds when we proposed the increase, the strongest motivation and rationale for an increase in premiums at this time was the long-term structural imbalance between premiums received and losses on bank failures. Failed-bank losses have exceeded assessment revenue every year since 1983, and the Fund has declined precipitously since 1987. Simply put, the Bank Insurance Fund has been spending more than it has been taking in. This trend must be reversed. We believe that at the new premium level, revenues could overtake expenses in the next few years and the Fund could then begin to rebuild itself. This presumes that equal attention is given to the expense side of the business and that we have the flexibility to liquidate the Fund's interest in failed banks in an efficient way, and in reasonable markets.

Risk-Related Deposit Insurance Premiums for FDIC-Insured Institutions

Another pressing issue that has confronted the FDIC is the need to develop a deposit insurance system that appropriately recognizes the differences among institutions. Under the current flat-rate deposit insurance system, all FDIC-insured depository institutions are assessed at the same rate for their deposit insurance coverage.

These premiums do not vary with the level of risk that a bank poses to the Bank Insurance Fund and therefore to other banks. The system of flat-rate premiums has been criticized for encouraging excessive risk-taking by insured institutions and inequitably distributing the burden of insurance losses among banks. These acknowledged deficiencies of the flat-rate system prompted Congress to direct the FDIC to develop and implement a system of risk-related insurance assessments by January 1, 1994.

In May 1992, the FDIC's Board of Directors approved for publication in the Federal Register a proposed transitional risk-related premium regulation, to become effective January 1, 1993 after any modification as a result of public comment. The proposal is appended to my testimony as Attachment 3. Under the proposed system, institutions would be assigned to three capital categories, "well-capitalized," "adequately capitalized" and "less than adequately capitalized," based upon the capital-ratio standards established by the federal banking agencies to implement the prompt corrective action provisions of FDICIA. Within each capital category, institutions would be assigned to three subcategories, "healthy," "supervisory concern" and "substantial supervisory concern." The FDIC would assign institutions to subgroups based upon the evaluations provided by the institution's primary federal or state supervisor, statistical analysis of the institution's financial statement, and other information relevant to estimating the institution's risk.

The proposed rate schedule incorporates a six basis point spread between the highest and lowest premiums. We are considering whether the permanent risk-related premium schedule should incorporate wider premium-rate spreads between insurance groups and annual or semiannual "ratcheting" of premium rates for high-risk institutions that do not improve their conditions. It should be stressed that the proposed risk-related premium system is not a panacea and should be viewed as a complement to existing supervisory tools.

CONCLUSION

There are a number of signs that the condition of the banking system is improving, including the very strong first quarter earnings results. The system is clearly in better shape than a year ago. Yet, there continues to be a substantial amount of risk and problems that will have an impact on the insurance fund. We hope for the best, but prepare for less.

By aggressively reserving an appropriate amount for future losses, we have tried to reflect accurately in our financial statements what we believe the cost to the Fund will be. This level of reserves, and the resulting increase in insurance premiums, are unfortunate -- but our goal is to ensure that the insurance system pays for itself. In the first instance, we should cover insurance expenses and eventually provide a cushion for future bank failures.

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Attachment 1

The FDIC Quarterly Banking Profile

William Taylor, Chairman

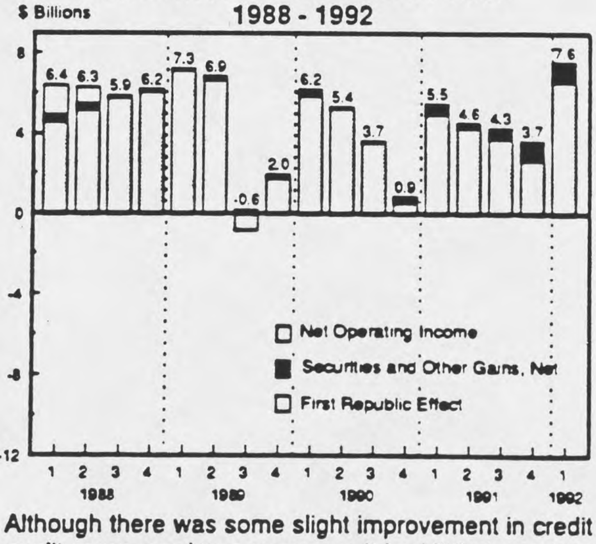
t Quarter, 1992

COMMERCIAL BANKING PERFORMANCE - FIRST QUARTER, 1992

- *Commercial Banks Earn Record $7.6 Billion In First Quarter*
- *Favorable Interest Rates Boost Net Interest Income*
- *Over 93 Percent of Commercial Banks Show Quarterly Profit*
- *Loan Portfolios Shrink for Fifth Consecutive Quarter*

Insured commercial banks earned a record $7.6 billion in the first quarter of 1992, a $2-billion increase from the first quarter of 1991. Favorable interest-rate conditions produced wider spreads between the rates banks earned on their assets and the rates they paid for their liabilities. Low interest rates also created opportunities for profits on sales of investment securities. Net interest income was $2.8 billion higher than a year ago, while gains from securities sales added $682 million to the year-to-year improvement in the industry's pre-tax earnings. Commercial banks' return on assets averaged 0.88 percent in the first quarter, the highest percentage since the second quarter of 1989. Almost three out of every four banks reported higher earnings than a year ago, and over 93 percent of commercial banks were profitable. Although quarterly earnings reached an all-time high, dividend payments were one-third lower than in 1991, and retained earnings also set a quarterly record, contributing $4.7 billion to a $7.5-billion increase in banks' equity capital during the quarter.

Chart A - Quarterly Net Income of FDIC-Insured Commercial Banks 1988 - 1992



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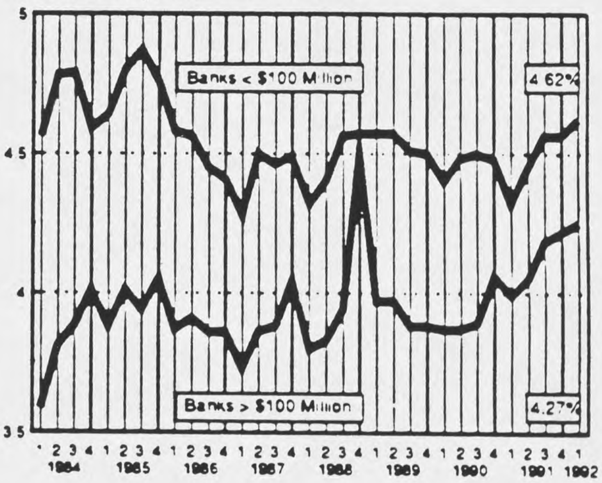
Although there was some slight improvement in credit quality compared to a year ago, it had little impact on earnings. Banks charged-off $6.3 billion in bad loans, and set aside $7.2 billion in provisions for future loan losses, both unchanged from the first quarter of 1991. The high level of loan charge-offs contributed to a $691-million reduction in noncurrent loans and a $1-billion increase in the industry's foreclosed property holdings during the quarter. At the end of March, noncurrent loans were $7.9 billion below the peak level reached a year earlier, while foreclosed properties were $4.5 billion higher. Most of the improvement in noncurrent loan levels in the past twelve months has been in commercial and industrial loans.

Chart B - Quarterly Net Interest Margins of FDIC-Insured Commercial Banks 1984-1992



The average net interest margin at commercial banks in the first quarter was 4.31 percent, the highest level since the fourth quarter of 1988, when sizable payments of past-due loan interest from developing-country borrowers provided a one-time boost to large banks' net interest income. The interest that banks earned on their assets and paid for their liabilities both declined during the quarter, but liability costs fell more sharply, producing the wider net margins. This marked the fourth consecutive quarter that net interest margins have widened. The benefits of the favorable interest-rate environment were distributed relatively evenly among banks of different sizes and regions.

Total loans at commercial banks fell by $16.6 billion in the first quarter, the fifth consecutive quarter that they have declined. Consumer loans had the largest decline in the first quarter; they fell by $13.6 billion, due to decreasing levels of installment debt and seasonal factors in credit-card loans. Commercial and industrial loans fell by $7.3 billion, largely due to a $9.8-billion reduction in banks' exposure to highly leveraged transactions (HLTs). Real estate loans registered moderate growth of $3 billion, due to increases in residential mortgage lending. Commercial real estate loans increased slightly, while loans for construction and development continued to decline sharply. Total loans and leases held by commercial banks are now at their lowest level since the third quarter of 1989. The largest decline has been in commercial and industrial loans, which have shrunk by $71.5 billion (11.5 percent) in the past two years.

Despite the shrinkage in loan portfolios, bank assets grew by $5.3 billion in the first quarter, as banks increased their holdings of U.S. Treasury securities, mortgage-backed securities, and other liquid investments. Banks' holdings of U.S. Treasury securities increased by $19 billion, while they added $8.3 billion to their holdings of mortgage-backed securities. Collateralized mortgage obligations (CMOs) accounted for about 80 percent of the increase in mortgage-backed securities.

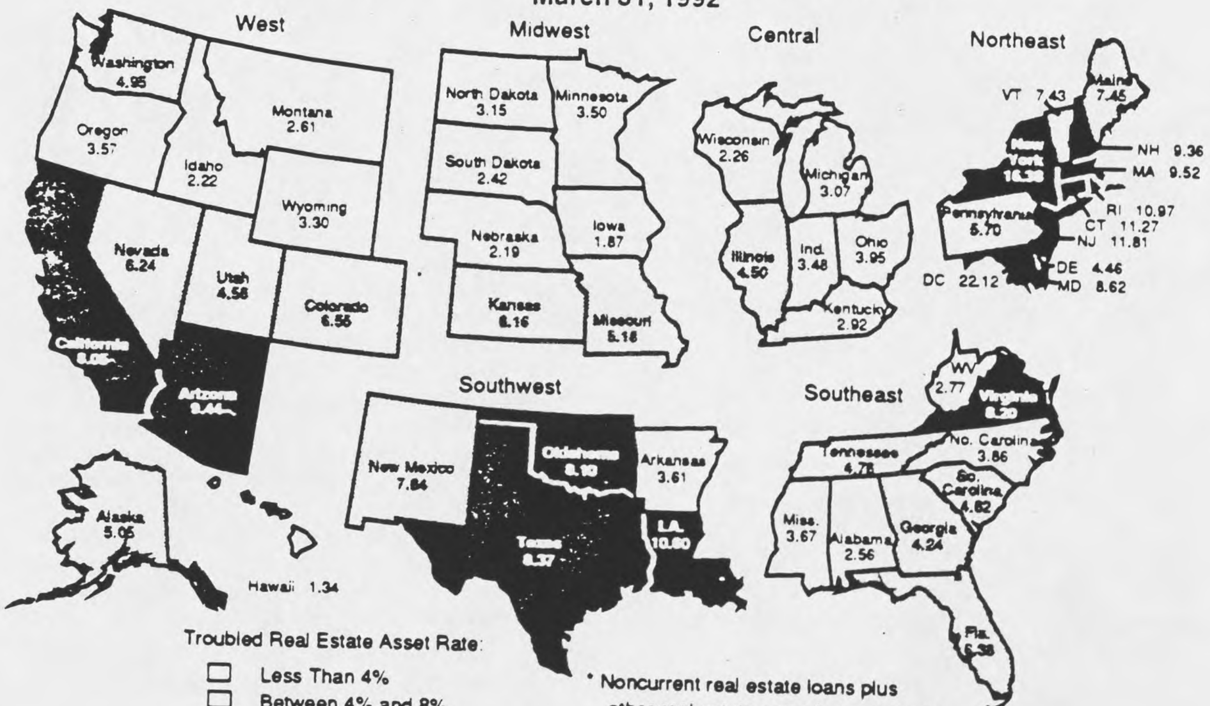
Credit losses remained highest at banks in the Northeast Region. Although quarterly net charge-offs fell for the third consecutive quarter, they were still above the level of the first quarter of 1991. Almost one-third (30.7 percent) of the loans charged-off in the first quarter were for commercial real estate or construction and development. Despite continuing credit-quality woes, earnings at Northeast Region banks were almost double the level of a year ago, thanks to improved net interest margins, gains from sales of securities, control of overhead expense growth, and lower provisions for future loan losses.

Banks in the West Region were the only regional group with lower net income than a year ago, but this decline was due to depressed results at the five largest California banks. Earnings at the other banks in the West Region registered a slight year-to-year increase. The proportion of unprofitable banks declined and two out of every three banks reported improved earnings. Provisions for future loan losses were 75 percent higher than a year ago (also due to increases at the five largest California banks), while gains from securities sales were below year-ago levels. Although earnings were about one-third lower than in the first quarter of 1991, banks in the West Region reduced their dividend payments by two-thirds compared with last year, so that their retained earnings actually increased. The West Region was also the only area whose banks showed a 12-month increase in noncurrent loans.

The number of commercial banks continued to decline in the first quarter. At the end of March, there were 11,806 banks reporting financial results, a net reduction of 114 institutions since year-end 1991. Twenty-nine banks failed in the first quarter, while 15 new banks were chartered and 97 merged with other institutions. The number of commercial banks on the "Problem List" shrank by 35 institutions, while the combined assets of "Problem" commercial and savings banks remain at historically high levels.

Favorable interest-rate conditions have allowed banks to improve their earnings and capitalization even as credit losses remain high. In the near term, conditions are likely to remain favorable for continued wide lending margins, although further margin improvement will be more difficult to achieve. In the longer term, the outlook for commercial bank profitability is closely tied to trends in credit quality. Loan losses and provisioning for future losses are no longer rising, although they remain at record-high levels. As loan portfolios have shrunk, banks' balance sheets have become more liquid. If lending conditions improve, commercial banks will face few balance-sheet constraints to increasing their loan volume.

Chart C - Troubled Real Estate Asset Rates* By State
March 31, 1992



Troubled Real Estate Asset Rate:

- Less Than 4%
- Between 4% and 8%
- 8% or Higher

* Noncurrent real estate loans plus other real estate owned as a percent of total real estate loans plus OREO.

REAL ESTATE LOAN PERFORMANCE AND OTHER REAL ESTATE OWNED, MARCH 31, 1992

	ASSET SIZE					GEOGRAPHIC DISTRIBUTION					
	ALL BANKS	LESS THAN $100MM	$100MM TO $1B	$1B TO $10B	$10B OR MORE	NORTH-EAST REGION	SOUTH-EAST REGION	CENTRAL REGION	MID-WEST REGION	SOUTH-WEST REGION	WEST REGION
'ERCENT OF LOANS 30-89 DAYS PAST DUE											
ll real estate loans	2.38%	2.04%	2.01%	2.53%	2.64%	3.03%	1.75%	1.92%	1.86%	2.14%	2.58%
Construction and development	4.53	2.01	3.51	5.34	4.68	5.21	2.52	3.50	3.07	1.96	6.06
Commercial real estate	2.71	1.91	2.04	2.84	3.56	3.94	1.74	2.15	2.49	2.08	2.72
Multifamily residential real estate	3.15	1.90	1.98	3.18	4.43	3.69	1.81	3.41	2.05	2.72	3.66
1-4 Family residential	1.87	2.20	1.91	1.72	1.83	2.27	1.73	1.62	1.43	2.16	1.74
Home equity lines of credit	0.86	1.40	1.03	0.97	0.60	1.19	0.76	0.73	0.78	2.27	0.49
ommercial R/E loans not secured by real estate	2.35	2.34	2.14	2.69	2.26	2.85	2.99	0.92	0.79	1.78	2.43
'ERCENT OF LOANS NONCURRENT*											
ll real estate loans	4.63%	1.91%	2.45%	4.37%	7.48%	7.75%	2.97%	2.09%	1.91%	3.18%	4.82%
Construction and development	14.75	3.24	5.82	12.20	22.39	23.93	7.80	6.20	3.82	5.22	14.93
Commercial real estate	5.93	2.47	3.40	5.52	10.53	10.00	4.31	3.09	3.39	4.43	5.51
Multifamily residential real estate	5.74	2.45	2.94	4.84	9.96	9.86	3.67	2.81	2.35	3.81	5.57
1-4 Family residential	1.69	1.40	1.41	1.69	2.05	2.83	1.30	0.93	0.83	1.71	1.48
Home equity lines of credit	0.75	0.93	0.82	0.75	0.70	1.27	0.46	0.37	0.43	1.60	0.44
ommercial R/E loans not secured by real estate	8.22	3.38	4.94	4.16	10.40	13.51	8.35	3.28	4.57	1.27	5.41
ERCENT OF LOANS CHARGED OFF *(NET, ANNUALIZED)*											
ll real estate loans	0.85%	0.18%	0.25%	0.73%	1.64%	1.66%	0.51%	0.25%	0.32%	0.41%	0.72%
Construction and development	3.14	0.41	1.55	2.49	5.13	5.64	1.52	1.19	0.54	1.37	2.63
Commercial real estate	1.01	0.31	0.38	0.85	2.17	1.87	0.75	0.35	0.83	0.50	0.85
Multifamily residential real estate	1.28	0.60	0.24	0.55	3.14	3.29	0.60	0.03	0.77	0.27	0.50
1-4 Family residential	0.15	0.10	0.13	0.20	0.16	0.23	0.18	0.07	0.05	0.23	0.09
Home equity lines of credit	0.14	0.16	0.13	0.18	0.11	0.21	0.09	0.07	0.13	0.06	0.12
ommercial R/E loans not secured by real estate	5.01	2.87	1.50	1.58	6.77	9.95	1.78	3.16	0.78	0.09	1.68
OTAL LOANS OUTSTANDING *($ BILLIONS)*											
ll real estate loans	$854.2	$96.7	$217.5	$258.2	$281.9	$263.5	$163.7	$143.9	$52.9	$51.6	$178.6
Construction and development	96.3	5.8	17.5	32.8	40.2	32.3	17.3	12.1	3.6	4.1	26.9
Commercial real estate	251.0	25.8	71.3	87.5	66.5	72.3	51.4	44.0	14.9	18.3	50.2
Multifamily residential real estate	24.9	2.0	6.7	8.3	7.8	7.6	4.2	4.5	1.7	1.5	5.4
1-4 Family residential	368.6	50.1	101.8	100.3	116.4	102.5	75.7	67.4	24.9	24.9	73.2
Home equity lines of credit	70.3	3.0	14.5	26.5	26.2	26.3	11.6	10.9	2.3	0.8	18.4
ommercial R/E loans not secured by real estate	24.0	0.8	2.4	5.4	15.4	9.0	2.0	3.4	0.6	0.8	8.3
THER REAL ESTATE OWNED *($ BILLIONS)*											
l other real estate owned	$27.6	$2.1	$4.9	$8.3	$12.3	$12.9	$3.9	$2.3	$1.2	$2.8	$4.5
Construction and development	6.9	0.3	1.2	3.2	2.2	3.3	1.2	0.5	0.2	0.5	1.2
Commercial real estate	14.1	0.9	2.3	3.8	7.0	6.3	2.0	1.3	0.7	1.5	2.3
Multifamily residential real estate	2.0	0.1	0.3	0.5	1.2	1.3	0.2	0.1	0.1	0.1	0.2
1-4 Family residential	2.8	0.6	1.0	0.6	0.6	0.9	0.5	0.2	0.1	0.5	0.5
Farmland	0.5	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.2	0.1
Other real estate owned in foreign offices	1.3	0.0	0.0	0.1	1.2	1.1	0.0	0.0	0.0	0.0	0.2

*Noncurrent loan rates represent the percentage of loans in each category that are past-due 90 days or more or that are in nonaccrual status.

Table I. Selected Indicators, FDIC-Insured Commercial Banks

	1992*	1991*	1991	1990	1989	1988	1987
Return on assets	0.88%	0.66%	0.54%	0.49%	0.49%	0.82%	0.09%
Return on equity	12.87	10.05	8.09	7.61	7.78	13.30	2.00
Equity capital to assets	6.96	6.66	6.76	6.45	6.21	6.28	6.04
Noncurrent loans and leases plus other real estate owned to assets	3.00	3.17	2.99	2.90	2.26	2.14	2.46
Net charge-offs to loans	1.23	1.19	1.60	1.44	1.16	0.99	0.92
Asset growth rate	2.52	1.01	1.21	2.73	5.37	4.36	2.01
Net operating income growth	36.21	−15.59	−0.74	3.20	−38.53	1554.74	−89.65
Percentage of unprofitable banks	6.57	10.79	11.19	13.41	12.50	14.65	17.66
Number of institutions	11,806	12,246	11,920	12,340	12,707	13,139	13,696
Number of problem banks	981	996	1,016	1,012	1,092	1,394	1,559
Assets of problem banks *(billions)*	$535.4	$318.6	$528.0	$341.6	$187.9	$304.8	$329.2
Number of failed/assisted banks	29	28	108	159	206	221	201

* Through March 31; ratios annualized where appropriate. Asset growth rates are for 12 months ending March 31.

Table II. Aggregate Condition and Income Data, FDIC-Insured Commercial Banks
(dollar figures in millions)

	Preliminary 1st Qtr 1992	4th Qtr 1991	1st Qtr 1991	%Change 91:1-92:1
Number of banks reporting	11,806	11,920	12,246	−3.6
Total employees (full-time equivalent)	1,477,474	1,486,210	1,501,569	−1.6
CONDITION DATA				
Total assets	$3,435,475	$3,430,143	$3,350,898	2.5
Real estate loans	854,106	851,138	837,562	2.0
Commercial & industrial loans	551,642	558,891	605,866	−8.9
Loans to individuals	377,572	391,194	389,363	−3.0
Farm loans	33,386	34,988	32,354	3.2
Other loans and leases	218,731	215,807	224,114	−2.4
Total loans and leases	2,035,436	2,052,018	2,089,260	−2.6
LESS: Reserve for losses	55,795	55,093	55,041	1.4
Net loans and leases	1,979,641	1,996,925	2,034,219	−2.7
Temporary investments	518,987	499,033	467,221	11.1
Securities over 1 year	536,379	514,565	466,242	15.0
All other assets	400,469	419,620	383,217	4.5
Total liabilities and capital	3,435,475	3,430,143	3,350,898	2.5
Noninterest-bearing deposits	470,770	480,296	418,586	12.5
Interest-bearing deposits	2,205,554	2,207,252	2,189,884	0.7
Other borrowed funds	386,416	379,166	378,880	2.0
Subordinated debt	24,953	24,863	23,999	4.0
All other liabilities	108,523	106,776	116,355	−6.7
Equity capital	239,259	231,790	223,194	7.2
Goodwill	4,517	4,502	4,254	6.2
Loans and leases 30-89 days past-due	40,080	41,756	47,686	−15.9
Noncurrent loans and leases	75,318	76,009	83,265	−9.5
Restructured loans and leases	9,516	9,746	8,729	9.0
Other real estate owned	27,616	26,534	23,082	19.6
Loan commitments and letters of credit	1,381,720	1,369,977	1,308,569	5.6
Foreign office assets	397,172	398,073	395,428	0.4
Domestic office deposits	2,366,798	2,382,919	2,303,298	2.8
Foreign office deposits	309,526	304,630	305,172	1.4
Earning assets	3,035,006	3,010,523	2,967,682	2.3
Volatile liabilities	977,517	986,321	1,046,550	−6.6

INCOME DATA	Full Year 1991	Full Year 1990	%Change	Preliminary 1st Qtr 1992	1st Qtr 1991	%Change
Total interest income	$289,170	$320,391	−9.7	$66,709	$75,614	−11.8
Total interest expense	167,267	204,918	−18.4	34,211	45,915	−25.5
Net interest income	121,904	115,473	5.6	32,498	29,699	9.4
Provision for loan losses	34,235	32,080	6.7	7,191	7,193	−0.0
Total noninterest income	59,698	55,064	8.4	16,087	14,576	10.4
Total noninterest expense	124,639	115,694	7.7	31,770	29,949	6.1
Securities gains (losses)	2,963	482	514.4	1,125	443	154.3
Applicable income taxes	8,333	7,764	7.3	3,320	2,384	39.2
Extraordinary gains, net	687	648	6.0	129	352	−63.5
Net income	18,045	16,129	11.9	7,559	5,544	36.3
Net charge-offs	32,763	29,662	10.5	6,325	6,288	0.6
Net additions to capital stock	1,038	2,180	−52.4	544	898	−39.4
Cash dividends on capital stock	14,284	13,852	3.1	2,820	4,181	−32.6
Net operating income	15,000	15,112	−0.7	6,598	4,844	36.2

Table III. First Quarter 1992 Bank Data *(Dollar figures in billions, ratios in %)*

		ASSET SIZE DISTRIBUTION				GEOGRAPHIC DISTRIBUTION					
						EAST			WEST		
FIRST QUARTER *Preliminary* *(The way it is...)*	ALL BANKS	Less than $100 Million	$100 Million to $1 Billion	$1-10 Billion	Greater than $10 Billion	Northeast Region	Southeast Region	Central Region	Midwest Region	Southwest Region	West Region
Nu[illegible] of banks reporting	11,806	8,662	2,775	318	51	967	1,914	2,612	2,860	2,088	1,365
Total assets	$3,435.47	$350.62	$675.83	$1,031.21	$1,377.82	$1,287.46	$528.50	$559.15	$235.38	$272.77	$552.21
Total deposits	2,676.32	311.22	586.85	789.70	988.55	926.01	422.57	448.01	192.83	237.63	449.27
Net income *(in millions)*	7,559	955	1,719	2,639	2,245	2,444	1,281	1,489	752	751	842
Percentage of banks losing money	6.6%	7.0%	5.1%	7.2%	11.8%	14.7%	7.4%	3.7%	3.8%	5.6%	12.4%
Percentage of banks with earnings gains	72.6%	71.6%	75.6%	74.2%	64.7%	70.5%	76.8%	74.2%	70.3%	76.0%	64.5%
Performance Ratios *(annualized)*											
Yield on earning assets	8.85%	8.92%	8.77%	8.78%	8.93%	9.21%	8.58%	8.61%	8.67%	8.14%	8.95%
Cost of funding earning assets	4.54	4.29	4.15	4.03	5.20	5.34	4.13	4.24	4.29	3.85	3.82
Net interest margin	4.31	4.62	4.62	4.74	3.73	3.87	4.44	4.37	4.39	4.29	5.13
Noninterest income to earning assets	2.13	1.09	1.29	2.44	2.62	2.65	1.62	1.54	2.34	1.68	2.19
Noninterest expense to earning assets	4.21	3.84	3.87	4.51	4.26	4.28	4.00	3.75	4.20	4.16	4.79
Net operating income to assets	0.77	0.99	0.96	0.92	0.51	0.60	0.87	1.00	1.20	0.94	0.58
Return on assets	0.88	1.10	1.02	1.03	0.65	0.76	0.98	1.06	1.29	1.11	0.61
Return on equity	12.87	11.93	12.97	14.43	11.71	12.35	13.54	14.25	15.83	15.91	8.82
Net charge-offs to loans and leases	1.24	0.41	0.59	1.51	1.52	1.77	0.83	0.74	0.74	0.77	1.28
Loan loss provision to net charge-offs	113.70	137.42	136.53	107.26	113.02	103.99	120.88	118.92	129.94	105.17	132.37
Condition Ratios											
Loss allowance to:											
Loans and leases	2.74%	1.80%	1.86%	2.79%	3.33%	3.43%	2.05%	1.89%	2.05%	2.52%	2.99%
Noncurrent loans and leases	74.08	87.34	80.03	87.03	65.35	65.23	86.26	90.57	108.12	89.96	74.53
Noncurrent loans and leases plus other real estate owned to assets	3.00	1.65	2.08	2.78	3.95	4.09	2.16	1.67	1.55	2.27	3.57
Equity capital ratio	6.96	9.25	7.95	7.24	5.69	6.29	7.27	7.60	8.21	7.04	7.04
Core capital (leverage) ratio	6.70	9.23	7.79	6.93	5.38	6.05	7.03	7.38	8.11	6.87	6.56
Net loans and leases to deposits	73.97	56.86	65.61	78.33	80.83	78.72	72.62	73.88	65.55	50.21	81.71
Growth Rates *(year-to-year)*											
Assets	2.5%	6.1%	7.5%	7.3%	5.3%	1.6%	4.3%	2.8%	4.2%	3.3%	1.5%
Equity capital	7.2	6.5	9.1	12.9	10.2	8.1	6.3	7.5	7.4	8.5	5.1
Net interest income	9.4	12.8	12.9	13.2	13.3	9.6	9.8	11.6	5.4	15.1	6.2
Net income	36.3	38.4	24.5	56.2	12.7	99.0	69.6	16.7	21.1	81.9	−32.6
Noncurrent loans and leases plus other real estate owned	−3.2	1.4	13.4	1.9	7.1	−10.9	−5.9	−3.2	2.7	−15.3	34.5
Net charge-offs	0.6	−6.6	−9.0	−2.1	17.3	5.9	−12.5	9.8	−19.6	−39.3	8.9
Loan loss provision	−0.0	−1.0	6.7	−11.2	26.0	−8.2	−29.1	6.7	−0.8	−30.0	75.6
PRIOR FIRST QUARTERS *(The way it was . . .)*											
Return on assets 1991	0.66%	1.16%	0.84%	0.66%	0.43%	0.39%	0.60%	0.93%	1.09%	0.62%	0.92%
1989	0.93	0.92	0.97	0.93	0.91	0.87	0.99	1.09	1.27	0.12	1.14
1987	0.72	0.70	0.85	0.83	0.55	0.73	1.07	0.95	0.84	0.09	0.52
Equity capital ratio 1991	6.66	9.05	7.85	6.67	5.38	5.91	7.14	7.27	7.96	6.71	6.80
1989	6.41	8.92	7.52	6.40	5.11	5.99	6.98	6.91	7.89	5.86	6.12
1987	6.43	8.55	7.37	6.17	5.32	6.01	6.87	7.05	7.39	6.57	5.96
Noncurrent loans and leases plus other real estate owned to assets 1991	3.17	1.78	2.10	3.09	4.18	4.66	2.39	1.77	1.57	2.77	2.70
1989	2.23	1.94	1.76	1.51	3.13	2.46	1.14	1.21	1.61	4.69	2.64
1987	2.61	2.37	1.98	1.82	3.73	2.58	1.11	1.55	2.24	4.62	3.90
Net charge-offs to loans and leases 1991	1.20	0.46	0.72	1.55	1.31	1.59	0.94	0.68	0.93	1.24	1.15
1989	0.73	0.53	0.59	0.80	0.79	0.61	0.42	0.60	0.95	1.67	0.95
1987	0.74	0.86	0.75	0.61	0.82	0.55	0.44	0.45	1.43	1.52	0.99

Regions:
- Northeast – Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont
- Southeast – Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia
- Central – Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin
- Midwest – Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
- Southwest – Arkansas, Louisiana, New Mexico, Oklahoma, Texas
- West – Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Pacific Islands, Utah, Washington, Wyoming

Table IV. Full Year 1991 Bank Data *(Dollar figures in billions, ratios in %)*

	ALL BANKS	ASSET SIZE DISTRIBUTION				GEOGRAPHIC DISTRIBUTION					
						EAST			WEST		
		Less than $100 Million	$100 Million to $1 Billion	$1-10 Billion	Greater than $10 Billion	Northeast Region	Southeast Region	Central Region	Midwest Region	Southwest Region	West Region
Number of banks reporting	11,920	8,798	2,754	319	49	994	1,924	2,633	2,881	2,103	1,385
Total assets	$3,430.14	$353.83	$673.79	$1,050.31	$1,352.21	$1,285.46	$514.52	$567.72	$233.02	$270.33	$559.09
Total deposits	2,687.55	314.05	583.53	810.52	979.45	933.28	418.93	451.69	192.75	236.92	453.98
Net income *(in millions)*	18,045	2,645	4,949	5,684	4,767	3,488	3,169	4,798	2,430	1,740	2,419
Percentage of banks losing money	11.2%	11.6%	9.0%	17.5%	24.5%	26.8%	14.8%	6.4%	4.5%	10.7%	18.9%
Percentage of banks with earnings gains	62.5%	61.9%	64.3%	66.8%	57.1%	56.1%	60.0%	63.2%	64.6%	70.4%	53.3%
Performance Ratios											
Yield on earning assets	9.91%	9.75%	9.74%	9.87%	10.07%	10.33%	9.57%	9.59%	9.76%	9.10%	10.04%
Cost of funding earning assets	5.73	5.28	5.25	5.35	6.40	6.52	5.33	5.43	5.34	5.13	5.09
Net interest margin	4.18	4.47	4.49	4.52	3.66	3.81	4.24	4.16	4.42	3.97	4.95
Noninterest income to earning assets	2.05	1.02	1.28	2.31	2.52	2.53	1.52	1.53	2.12	1.67	2.13
Noninterest expense to earning assets	4.27	3.88	3.88	4.51	4.39	4.47	3.98	3.70	4.15	4.24	4.73
Net operating income to assets	0.45	0.71	0.71	0.47	0.24	0.16	0.50	0.84	1.04	0.50	0.41
Return on assets	0.54	0.77	0.76	0.56	0.36	0.28	0.63	0.88	1.08	0.65	0.44
Return on equity	8.09	8.40	9.78	8.23	6.64	4.72	8.76	12.05	13.39	9.68	6.56
Net charge-offs to loans and leases	1.60	0.67	0.95	1.71	2.03	2.37	1.22	0.88	1.07	1.25	1.32
Loan loss provision to net charge-offs	104.49	120.90	118.94	120.28	89.85	88.92	118.21	119.40	108.49	85.25	145.39
Condition Ratios											
Loss allowance to:											
Loans and leases	2.68%	1.76%	1.83%	2.73%	3.27%	3.41%	2.01%	1.85%	1.99%	2.48%	2.84%
Noncurrent loans and leases	72.48	90.87	79.72	83.57	63.80	63.26	83.42	88.78	109.74	87.83	75.31
Noncurrent loans and leases plus other real estate owned to assets	2.99	1.61	2.07	2.81	3.95	4.13	2.21	1.63	1.53	2.38	3.36
Equity capital ratio	6.76	9.10	7.79	6.95	5.48	6.06	7.24	7.31	8.13	6.87	6.73
Core capital (leverage) ratio	6.50	9.10	7.68	6.66	5.15	5.83	6.90	7.19	8.04	6.72	6.29
Net loans and leases to deposits	74.30	57.41	66.48	77.98	81.34	78.94	73.08	73.44	65.34	50.88	82.78
Growth Rates *(year-to-year)*											
Assets	1.2%	5.8%	6.0%	6.7%	3.6%	−0.4%	1.3%	3.0%	0.8%	1.0%	[illegible]
Equity capital	6.0	5.3	8.3	12.5	7.1	6.8	4.5	6.9	6.3	6.6	[illegible]
Net interest income	5.6	7.4	8.0	11.5	10.0	4.0	3.7	9.0	8.3	8.5	4.9
Net income	11.9	13.4	0.8	31.2	−22.2	914.1	4.5	8.7	11.0	44.1	−51.0
Noncurrent loans and leases plus other real estate owned	4.5	4.9	19.7	14.0	14.6	−5.4	10.4	6.3	8.1	−11.3	50.8
Net charge-offs	10.5	4.6	33.3	26.1	12.6	8.2	35.7	−0.1	9.7	−9.3	17.8
Loan loss provision	6.7	−0.1	19.4	1.3	35.9	−7.4	3.8	13.4	5.2	−15.3	68.5
PRIOR FULL YEARS *(The way it was...)*											
Return on assets 1990	0.49%	0.70%	0.77%	0.37%	0.39%	0.03%	0.62%	0.83%	1.01%	0.46%	0.94%
1988	0.82	0.64	0.73	0.77	0.95	0.98	0.98	1.07	0.87	−0.71	0.81
1986	0.62	0.46	0.66	0.75	0.57	0.78	1.02	0.87	0.73	−0.39	0.33
Equity capital ratio 1990	6.45	8.98	7.68	6.34	5.26	5.65	7.02	7.05	7.70	6.51	6.67
1988	6.28	8.72	7.23	6.15	5.10	5.93	6.93	6.75	7.44	5.67	5.90
1986	6.19	8.35	6.97	5.95	5.14	5.81	6.57	6.79	7.12	6.39	5.67
Noncurrent loans and leases plus other real estate owned to assets 1990	2.90	1.69	1.92	2.80	3.77	4.35	2.03	1.58	1.42	2.71	2.30
1988	2.14	1.91	1.72	1.53	2.96	2.35	1.02	1.15	1.52	4.55	2.65
1986	1.95	2.24	1.89	1.44	2.30	1.55	0.96	1.30	2.01	4.10	2.98
Net charge-offs to loans and leases 1990	1.44	0.71	0.84	1.38	1.91	2.05	0.90	0.90	1.00	1.39	1.16
1988	0.99	0.88	0.78	1.04	1.08	0.82	0.63	0.72	1.31	2.32	1.23
1986	0.98	1.56	1.07	0.78	0.91	0.62	0.61	0.69	2.09	2.11	1.21

SAVINGS BANK PERFORMANCE - FIRST QUARTER, 1992

- *BIF-Insured Savings Banks Earn $176 Million – the First Quarterly Profit in Three Years*
- *Six Institutions Fail During the Quarter*
- *Troubled Assets Decline at the Remaining Savings Banks*

Savings banks insured by the Bank Insurance Fund earned $176 million in the first quarter of 1992. This is the first quarterly profit reported by the savings bank industry since the first quarter of 1989. FDIC resolutions of the most impaired institutions continued to reduce losses and to remove troubled assets from the industry, and figured significantly in the profitable first quarter. During the first quarter of 1992, six institutions with assets of $12.7 billion failed, including two of the largest institutions – Crossland Savings Bank, FSB, with $7.4 billion in total assets, and Dollar Dry Dock Bank, with $4 billion in total assets.

The earnings performance and asset quality indicators at the remaining savings banks showed improvement in the first quarter compared with the final quarter of 1991. First-quarter earnings of the 435 remaining savings banks were aided by improved net interest income, reduced loan-loss provisioning and lower noninterest expenses. The 321 institutions headquartered in the New England states reported an aggregate average return on assets of 0.21 percent, while the 99 savings banks in the other Northeastern states reported a slightly higher figure: 0.27 percent. Return on assets at the 15 savings banks located outside the Northeast averaged 1.43 percent.

Favorable interest rates continued to benefit the industry. Funding costs declined faster than asset yields, boosting net interest income for the quarter. Interest margins – net interest income as a percent of earning assets – reported by the 435 surviving institutions averaged 3.41 percent during first quarter 1992, compared with 3.07 percent the previous quarter. Sixteen percent lost money in the first quarter, compared with 30 percent in the final quarter of 1991.

The savings bank industry's troubled assets – noncurrent loans plus other real estate owned – declined overall by $943 million during the quarter, reflecting FDIC's resolution activities as well as improvement in the surviving institutions. A $374-million decrease in noncurrent loans during the quarter in the 435 remaining institutions was partially offset by an increase of $196 million in their other real estate owned. Troubled assets comprised 5.5 percent of these BIF-insured saving banks' assets at the end of the quarter, down slightly from 5.7 percent at the end of 1991. Net charge-offs of $422 million were down significantly from the $610 million charged-off by the 435 savings banks during the fourth quarter of 1991.

Lower loan-loss provisions enhanced earnings while reserves against loan losses increased compared with the previous quarter. Loan loss reserves at the remaining savings banks increased $162 million (5.5 percent) compared with their reserve levels at the end of the previous quarter. As of March 31, 1992, savings banks held almost 38 cents in reserve for each dollar of noncurrent loans, up from 34 cents reported by the same institutions at the end of the previous quarter. Reserve coverage levels remain strongest for savings banks located outside New England and the Northeast. These institutions have 79 cents in reserves for each dollar of troubled loans. Reserve coverage levels are significantly higher in the New England states than elsewhere in the Northeast. Aggregate capital ratios benefited from the positive earnings of the remaining savings banks. At the end of the quarter, equity capital increased to 7.10 percent of assets, up from 6.87 percent at year-end 1991.

Assets of the entire industry decreased by $943 million (–0.4 percent) in the quarter if the assets reported by those six institutions that failed during the first quarter are taken into account. However, both assets and deposits held by the 435 surviving institutions increased by $4.6 billion, or nearly 2 percent. At these institutions, mortgage loans increased $752 million, but total loans showed a net decrease of $560 million (–0.4 percent) for the quarter. Cash and investments, including short-term government securities, increased by more than $4 billion (9 percent). The increases in deposits, mortgage loans and cash assets largely reflect the acquisition of unimpaired loans and deposits from failed savings banks during the quarter.

Lower interest rates will help the remaining institutions cover credit losses. The viability of some savings banks still in operation today depends on market values of troubled real estate assets. Troubled assets were equal to 65 percent of the industry's equity and reserves at March 31, 1992. Institutions with strong balance sheets should benefit from continuing consolidation of the banking industry in the Northeast.

[1] Includes Crossland Savings, a newly-chartered Federal mutual savings bank which assumed the assets and deposits of Crossland Savings, FSB, Brooklyn, New York, on January 24, 1992. Excludes Southstate Bank for Savings, Brockton, MA, which failed on April 24, 1992 but did not submit its final March 31, 1992 Call report.

Table I. Selected Indicators, Savings Banks Insured by the FDIC Bank Insurance Fund (BIF)

	1992*	1991*	1991	1990	1989	1988	1987
Return on assets	0.30%	-0.29%	-0.50%	-0.98%	-0.27%	0.44%	0.84%
Equity capital to assets	7.10	6.64	6.74	6.62	7.06	7.44	7.69
Noncurrent loans and leases plus other real estate owned to assets**	5.49	5.80	5.86	5.13	2.64	1.51	0.95
Noncurrent RE loans to total RE loans**	5.29	5.66	5.65	5.32	3.14	1.67	1.01
Asset growth rate	-8.25	-7.51	-8.35	-7.46	-1.52	8.52	10.54
Deposit growth rate	-5.82	-5.32	-5.68	-4.98	1.36	7.90	5.81
Number of institutions	435	463	441	469	489	492	484
Number of problem savings banks	70	48	74	34	17	12	16
Assets of problem savings banks *(billions)*	$72.0	$81.1	$81.8	$67.2	$47.6	$47.4	$29.3
Number of failed savings banks	6	2	19	10	1	0	2

* Through March 31; rates annualized where appropriate. Asset and deposit growth rates are for 12 months ending March 31.
** Excludes Federally-chartered Savings Banks before 1990.

Table II. Aggregate Condition and Income Data, BIF-Insured Savings Banks
(dollar figures in millions)

	Preliminary 1st Qtr 1992	4th Qtr 1991	1st Qtr 1991	% Change 91:1-92:1
Number of savings banks reporting	435	441	463	-6.0
Total employees (full-time equivalent)	67,656	68,210	74,075	-8.7
CONDITION DATA				
Total assets	$236,477	$237,420	$257,753	-8.3
Mortgage loans	139,382	141,903	156,785	-11.1
1-4 family residential	95,505	96,758	103,999	-8.2
Construction and land development	4,493	5,205	7,763	-42.1
Commercial and multi-family	39,384	39,940	45,023	-12.5
All other loans and leases	15,485	17,161	20,636	-25.0
LESS: Reserves for losses	3,115	3,018	3,091	0.8
LESS: Other contra accounts	549	602	835	-34.3
Net loans and leases	151,202	155,445	173,494	-12.8
Mortgage-backed securities	20,530	20,743	25,296	-18.8
Other real estate owned	4,677	4,866	4,544	2.9
Goodwill	935	1,146	1,584	-40.9
All other assets	59,133	55,221	52,835	11.9
Total liabilities and capital	236,477	237,420	257,753	-8.3
Interest-bearing deposits	192,679	193,909	206,303	-6.6
Noninterest-bearing deposits	7,261	6,649	5,999	21.0
Other borrowed funds	16,647	17,688	24,569	-32.2
Subordinated debt	317	517	675	-53.0
Other liabilities	2,782	2,665	3,096	-10.1
Equity capital	16,791	15,992	17,111	-1.9
Loans and leases 30-89 days past-due	4,904	5,215	6,474	-24.2
Noncurrent loans and leases	8,301	9,055	10,396	-20.1
Other noncurrent assets	26	27	38	-31.2
Direct and indirect investments in real estate	798	929	1,175	-32.1

INCOME DATA	Full Year 1991	Full Year 1990	% Change	Preliminary 1st Qtr 1992	1st Qtr 1991	% Change
Total interest income	$20,204	$24,521	-17.6	$4,616	$5,746	-19.7
Total interest expense	13,890	18,085	-23.2	2,784	4,134	-32.7
Net interest income	6,315	6,437	-1.9	1,832	1,612	13.7
Provisions for losses	2,494	3,566	-30.1	388	499	-22.1
Total noninterest income	1,247	1,255	-0.6	319	316	0.9
Total noninterest expense	6,174	6,512	-5.2	1,493	1,553	-3.8
Securities gains (losses)	289	(25)	N/M	112	73	53.6
Applicable income taxes	445	191	133.0	218	131	66.0
Extraordinary gains, net	96	11	764.2	13	(1)	N/M
Net income	(1,167)	(2,591)	N/M	176	(184)	N/M
Net charge-offs	2,102	2,204	-4.6	422	551	-23.4

N/M – Not meaningful

able III. First Quarter 1992 Savings Bank Data *(Dollar figures in billions, ratios in %)*

RST QUARTER *Preliminary*	All BIF-Insured Savings Banks	ASSET SIZE DISTRIBUTION			GEOGRAPHIC DISTRIBUTION		
		Less than $100 Million	$100 Million to $1 Billion	Greater than $1 Billion	New England	Other Northeast	Rest of U.S.
umber of savings banks reporting	435	126	252	57	321	99	15
tal ets	$236.48	$6.78	$79.90	$149.80	$104.02	$120.87	$11.59
tal osits	$199.94	$6.08	$69.68	$124.18	$89.93	$102.75	$7.26
t income *(in millions)*	176	5	81	90	55	80	41
rcentage of savings banks losing money	15.63	20.64	11.91	21.05	17.45	11.11	6.67
rcentage of savings banks with earnings gains	73.10	72.22	73.41	73.68	72.90	73.74	73.33
rformance Ratios *(annualized)*							
ld on earning assets	8.58%	8.95%	8.73%	8.48%	8.71%	8.37%	9.58%
st of funding earning assets	5.17	5.15	5.11	5.21	5.14	5.15	5.69
interest margin	3.41	3.80	3.62	3.27	3.57	3.22	3.89
ninterest income to earning assets	0.30	0.18	0.25	0.32	0.30	0.24	0.78
ninterest expense to earning assets	1.39	1.57	1.48	1.33	1.58	1.22	1.36
urn on assets	0.30	0.29	0.41	0.24	0.21	0.27	1.43
urn on equity	4.20	3.63	5.28	3.57	3.01	3.83	14.97
charge-offs to loans and leases	1.10	0.54	0.71	1.33	1.28	1.01	0.25
n loss provision to net charge-offs	92.04	117.71	112.84	85.60	88.39	93.56	203.47
ndition Ratios							
s allowance to:							
ans and leases	2.03	1.30	1.59	2.30	2.07	2.10	1.02
ncurrent loans and leases	37.52	38.73	43.08	35.77	46.07	31.30	78.84
current loans and leases plus her real estate owned to assets	5.49	3.87	4.26	6.22	5.30	5.97	2.14
current RE loans to total RE loans	5.29	3.34	3.65	6.27	4.35	6.58	1.30
ty capital ratio	7.10	7.90	7.78	6.70	7.05	6.91	9.59
capital (leverage) ratio	6.71	7.91	7.71	6.12	6.84	6.31	9.65
loans and leases to deposits	75.62	73.32	73.90	76.70	76.97	72.20	107.45
wth Rates *(year-to-year)*							
ets	−8.25%	4.21%	6.31%	3.89%	−5.09%	−11.51%	0.28%
ty capital	−1.87	−0.46	0.15	−3.69	1.45	−6.81	19.98
nterest income	13.66	23.32	21.86	19.25	20.99	6.38	23.33
nc	N/M	N/M	1538.07	N/M	N/M	848.13	35.45
harge-offs	−23.43	−25.34	−16.18	12.03	−37.50	2.90	97.27
loss provision	−22.12	7.56	−16.81	−8.90	−36.01	−2.00	214.20

– Not meaningful

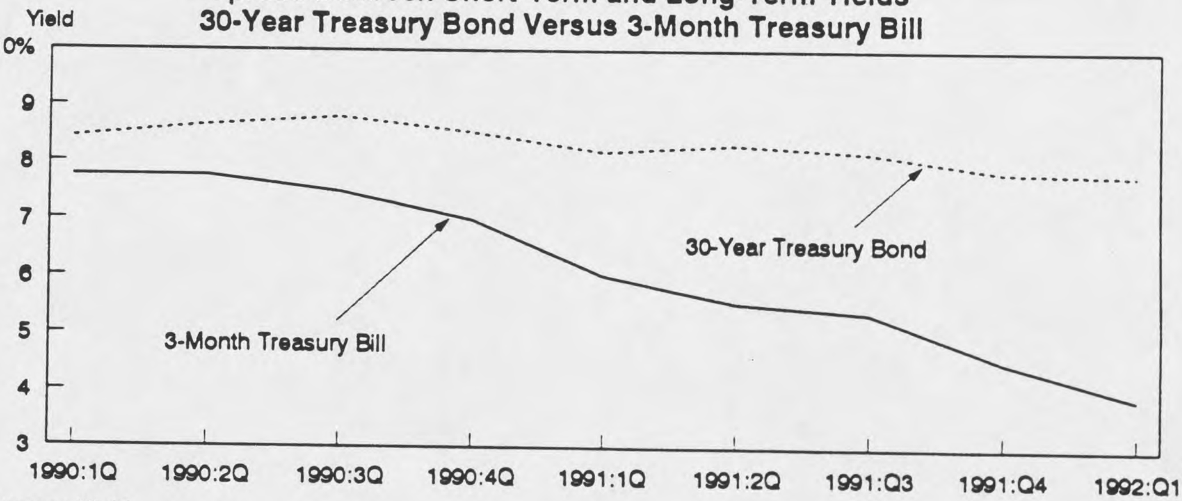
raphic Distribution: New England – Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Other Northeast – Delaware, Maryland, New Jersey, New York, Pennsylvania
Rest of U.S. – Alaska, Florida, Indiana, Oregon, Washington

Table IV: Full Year 1991 Savings Bank Data *(Dollar figures in billions, ratios in %)*

	All BIF-Insured Savings Banks	ASSET SIZE DISTRIBUTION			GEOGRAPHIC DISTRIBUTION		
		Less than $100 Million	$100 Million to $1 Billion	Greater than $1 Billion	New England	Other Northeast	Rest of U.S.
Number of savings banks reporting	441	130	253	58	326	100	1[illegible]
Total assets	$237.42	$6.99	$79.23	$151.20	$105.02	$121.04	$11.3[illegible]
Total deposits	$200.56	$6.27	$69.16	$125.13	$90.92	$102.35	$7.29
Net income *(in millions)*	(1,167)	(23)	(199)	(944)	(657)	(642)	132
Percentage of savings banks losing money	33.79	36.92	30.44	41.38	39.26	21.00	0.00
Percentage of savings banks with earnings gains	64.17	62.31	65.61	62.07	64.11	62.00	80.00
Performance Ratios							
Yield on earning assets	9.34%	9.65%	9.49%	9.24%	9.41%	9.20%	10.13%
Cost of funding earning assets	6.42	6.23	6.26	6.51	6.31	6.48	6.73
Net interest margin	2.92	3.42	3.23	2.73	3.11	2.71	3.40
Noninterest income to earning assets	1.15	0.74	0.98	1.26	1.22	0.92	2.96
Noninterest expense to earning assets	5.71	6.45	5.97	5.54	6.37	5.17	5.44
Return on assets	−0.50	−0.34	−0.26	−0.63	−0.65	−0.53	1.16
Return on equity	−7.06	−4.19	−3.25	−9.60	−8.91	−7.86	13.49
Net charge-offs to loans and leases	1.32	1.08	1.15	1.41	1.66	1.11	0.26
Loan loss provision to net charge-offs	118.67	107.90	117.03	119.76	106.18	134.82	159.16
Condition Ratios							
Loss allowance to:							
Loans and leases	1.91%	1.27%	1.59%	2.11%	2.08%	1.85%	0.96%
Noncurrent loans and leases	33.33	36.69	39.62	31.28	43.77	26.07	68.21
Noncurrent loans and leases plus other real estate owned to assets	5.86	3.84	4.71	6.56	5.65	6.39	2.21
Noncurrent RE loans to total RE loans	5.65	3.50	4.00	6.63	4.65	7.00	1.41
Equity capital ratio	6.74	7.90	7.66	6.20	6.85	6.37	9.56
Core capital (leverage) ratio	6.04	7.85	7.53	5.17	6.68	5.17	9.45
Net loans and leases to deposits	77.51	74.70	75.33	78.85	78.13	74.86	106.90
Growth Rates *(year-to-year)*							
Assets	−8.35%	5.92%	5.22%	−1.87%	−5.19%	−11.61%	0.27[illegible]
Equity capital	−6.68	−0.21	−2.28	−10.13	−0.97	−14.11	21.6[illegible]
Net interest income	−1.91	10.05	6.60	3.96	1.15	−6.42	16.65
Net income	N/M	N/M	N/M	N/M	N/M	N/M	119.70
Net charge-offs	−4.64	15.48	5.63	−1.07	−19.74	27.77	15.18
Loan loss provision	−30.05	−14.69	−13.43	−12.79	−42.95	−7.63	−27.22

N/M – Not meaningful

Spread Between Short-Term and Long-Term Yields
30-Year Treasury Bond Versus 3-Month Treasury Bill

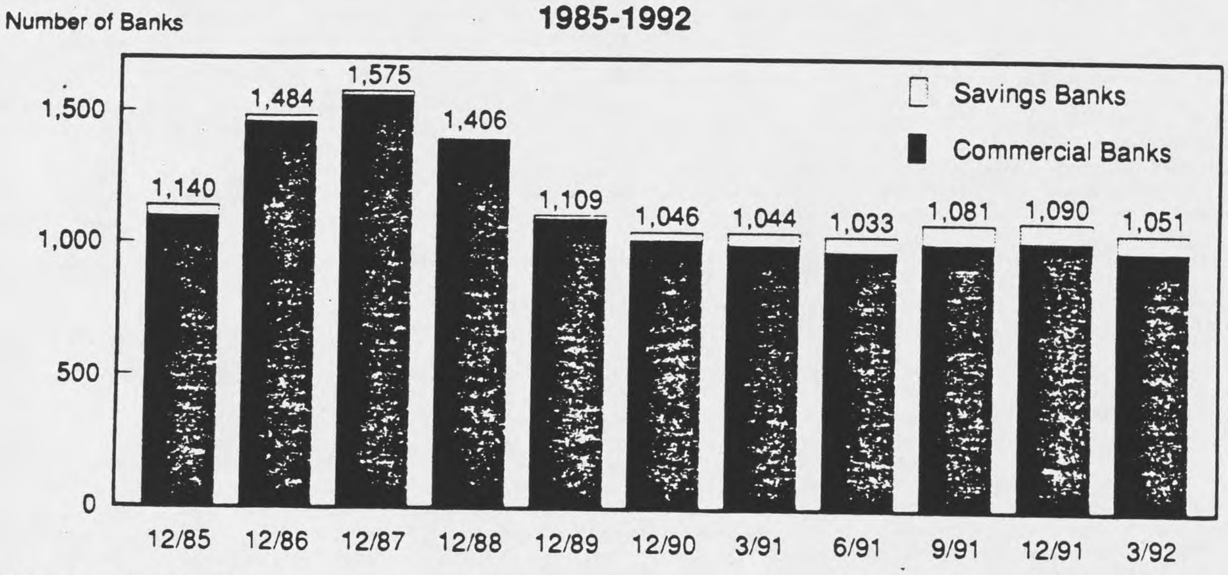


Quarterly Average Yield:

30 Yr Treasury Bond	8.44	8.65	8.80	8.55	8.20	8.32	8.18	7.85	7.80
3 Month Treasury Bill	7.76	7.75	7.48	6.99	6.02	5.56	5.38	4.54	3.90
Spread	0.68	0.90	1.32	1.56	2.18	2.76	2.80	3.31	3.90

Number of Commercial and Savings Banks on FDIC's "Problem List"

1985-1992

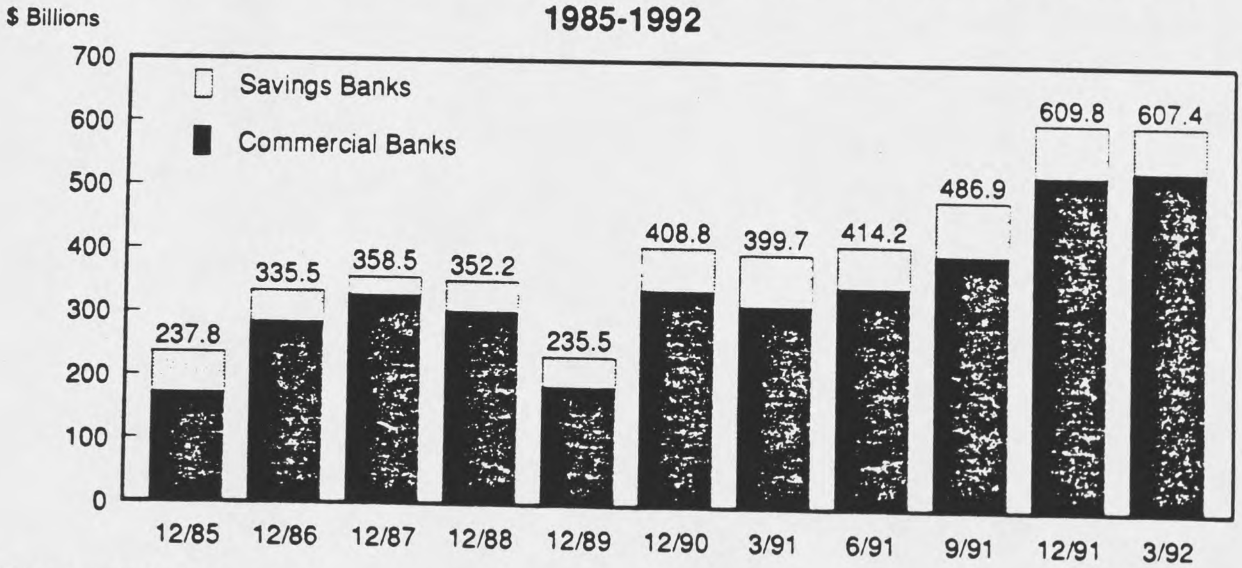


Number of Problem Institutions:

	12/85	12/86	12/87	12/88	12/89	12/90	3/91	6/91	9/91	12/91	3/92
Savings Banks	42	27	16	12	17	34	48	58	76	74	70
Commercial Banks	1,098	1,457	1,559	1,394	1,092	1,012	996	975	1,005	1,016	981

Assets of Commercial and Savings Banks on FDIC's "Problem List"

1985-1992



ssets of Problem Institutions:

	12/85	12/86	12/87	12/88	12/89	12/90	3/91	6/91	9/91	12/91	3/92
Savings Banks	63.9	49.7	29.3	47.4	47.6	67.2	81.1	65.4	85.9	81.8	72.0
Commercial Banks	173.9	285.8	329.2	304.8	187.9	341.6	318.6	348.8	401.0	528.0	535.4

NOTES TO USERS:

COMPUTATION METHODOLOGY FOR PERFORMANCE AND CONDITION RATIOS

The data on commercial banks and state-chartered savings banks were obtained from Call reports filed with the FDIC and Federal Reserve Board. Data on Federally-chartered savings banks (15 institutions as of March 31, 1992) were obtained from Thrift Financial Reports filed with the Office of Thrift Supervision. Certain adjustments are made to the Thrift Financial Reports to provide closer conformance with Call report disclosure requirements.

All income figures used in calculating performance ratios represent amounts for that period, annualized (multiplied by the number of periods in a year).

All asset and liability figures used in calculating performance ratios represent average amounts for the period (beginning-of-period amount plus end-of-period amount plus any periods in between, divided by the total number of periods).

All asset and liability figures used in calculating the condition ratios represent amounts as of the end of the quarter.

DEFINITIONS

"Problem" Banks – Federal regulators assign to each financial institution a composite rating, based upon an evaluation of financial and operational criteria. The rating is based on a scale of 1 to 5 in ascending order of supervisory concern. "Problem" banks are those institutions with financial, operational, or managerial weaknesses that threaten their continued financial viability. Depending upon the degree of risk and supervisory concern, they are rated either a "4" or "5."

Earning Assets – all loans and other investments that earn interest, dividend or fee income.

Net Operating Income – income excluding discretionary transactions such as gains (or losses) on the sale of investment securities and extraordinary items. Beginning with the first quarter 1992 publication, income taxes subtracted from operating income have been adjusted to exclude the portion applicable to securities gains (or losses).

Yield on Earning Assets – total interest, dividend and fee income earned on loans and investments as a percentage of average earning assets.

Cost of Funding Earning Assets – total interest expense paid on deposits and other borrowed money as a percentage of average earning assets.

Net Interest Margin – the difference between the yield on earning assets and the cost of funding them, i.e., the profit margin a bank earns on its loans and investments.

Return on Assets – net income (including securities transactions and nonrecurring items) as a percentage of average total assets. The basic yardstick of bank profitability.

Return on Equity – net income as a percentage of average total equity capital.

Loan Commitments and Letters of Credit – includes unused credit card commitments and overdraft plans, reflecting Call report revisions effective March 31, 1990.

Net Charge-offs – total loans and leases charged off (removed from balance sheet because of uncollectibility) during the quarter, less amounts recovered on loans and leases previously charged off.

Noncurrent Loans & Leases – the sum of loans past-due 90 days or more and loans in nonaccrual status.

Other Real Estate Owned – primarily foreclosed property. Direct and indirect investments in real estate ventures are excluded where appropriate.

Other noncurrent assets – debt securities and other assets (excluding loans, leases and other real estate owned) that are either past-due at least 90 days or in nonaccrual status. Due to reporting differences, only defaulted debt securities are included for Federal Savings Banks.

Core capital – common equity capital plus noncumulative perpetual preferred stock plus minority interest in consolidated subsidiaries, less goodwill and other ineligible intangible assets. Eligible intangibles (including mortgage servicing rights) are limited to 100 percent of core capital for savings banks, to 50 percent of core capital for state-chartered commercial banks that are not Federal Reserve members, and to 25 percent for National banks.

Net Loans and Leases – total loans and leases less unearned income and the allowance for loans and lease losses.

Temporary Investments – the sum of interest-bearing balances due from depository institutions, federal funds sold and securities purchased under agreements to resell, trading-account assets and investment securities with remaining maturities of one year or less.

Volatile Liabilities – the sum of large denomination time deposits, foreign office deposits, federal funds purchased, securities sold under agreements to repurchase, and other borrowed money.

Requests for copies of and subscriptions to the FDIC Quarterly Banking Profile should be made through the FDIC's Office of Corporate Communications, 550 17th Street N.W., Washington, D.C. 20429; telephone (202) 898-6996.

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institution on the date of such transaction that is in excess of $80,000; and

(iii) Is limited to 80 per centum of the remaining portion of the aggregate of the deposits specified in paragraph (b)(4)(ii) of this section.

(5) *Deposit broker.* As used in paragraph (b)(4) of this section, the term "deposit broker" has the meaning specified in section 29 of the Federal Deposit Insurance Act (12 U.S.C. 1831f).

(c) *Procedures for computation and payment.* An insured depository institution subject to this subpart D shall follow the payment procedure that is set forth in subpart B of this part.

§ 327.33 Form of certified statement.

The certified statement to be filed by an insured depository institution subject to this subpart D shall be in the form prescribed by the Corporation.

By order of the Board of Directors.

Dated at Washington, DC, this 12th day of May, 1992.

Federal Deposit Insurance Corporation.

Hoyle L. Robinson,

Executive Secretary.

[FR Doc. 92-11886 Filed 5-20-92; 8:45 am]

BILLING CODE 6714-01-M

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12 CFR Part 327

RIN 3064-AA96

Assessments

AGENCY: Federal Deposit Insurance Corporation.

ACTION: Proposed rule.

SUMMARY: The Board of Directors ("Board") of the Federal Deposit Insurance Corporation ("FDIC") is proposing to amend part 327 of its regulations, 12 CFR part 327 ("part 327"), to increase the deposit insurance assessment to be paid by Bank Insurance Fund ("BIF") members starting with the first semiannual period of calendar year 1993 and thereafter. The intended effect of this proposed rule is to recapitalize the BIF within the statutorily prescribed period of fifteen years.

DATES: Written comments must be received by the FDIC on or before July 20, 1992.

ADDRESSES: Written comments shall be addressed to the Office of the Executive Secretary, Federal Deposit Insurance Corporation, 550—17th Street, NW., Washington, DC, 20429. Comments may be hand-delivered to room F-400, 1776 F Street NW., Washington, DC 20429, on business days between 8:30 a.m. and 5 p.m.

FOR FURTHER INFORMATION CONTACT: William R. Watson, Director, Division of Research and Statistics, Federal Deposit Insurance Corporation, 550—17th Street NW., Washington, DC 20429, (202) 898-3946.

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

No collections of information pursuant to section 3504(h) of the Paperwork Reduction Act (44 U.S.C. 3504(h)) are contained in the proposed rule. Consequently, no information has been submitted to the Office of Management and Budget for review.

Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601-612) does not apply to the publication of "a rule of particular applicability relating to rates." *Id.* at 601(2). Accordingly, the Act's requirements relating to an initial and final regulatory flexibility analysis (*Id.* at 603 & 604) are not applicable here.

Moreover, in connection with the current uniform-rate deposit assessment system (*i.e.*, one in which the same assessment rate applies to all insured depository institutions), the primary purpose of the Regulatory Flexibility Act is fulfilled as a matter of course, in that each institution's assessment is geared to the institution's size (as measured generally by domestic deposits).

Thus, the Board hereby certifies that the proposed increase in the deposit assessment rate, if adopted in final form and applied to the current uniform-rate assessment system, would not have a significant economic impact on a substantial number of small entities within the meaning of the Act.

Also, as discussed below, concurrently with the publication of this proposal, the FDIC has proposed for comment a transitional risk-related deposit insurance system. That proposal is addressed elsewhere in this issue of the Federal Register as a separate notice of proposed rulemaking. As discussed in that proposal, the Board has determined that the proposed transitional risk-related assessment system, if adopted in final form, also would not have a significant economic impact on a substantial number of small entities within the meaning of the Act.

The Proposed Rule

I. Background for the Proposed BIF Assessment Rate Increase

A. Related Proposed Transition From a Uniform-Rate to a Risk-Based Assessment System

The assessment rate paid by BIF members presently is 0.23 percent per annum. Under the current uniform-rate system, all BIF members calculate and pay their assessments based on the same rate. As discussed below, concurrently with the publication of this proposed rule, the Board also has proposed a transitional risk-related assessment system pursuant to which the assessment rate applicable to a BIF member would depend on the risk-related assessment classification assigned to that institution by the FDIC. The proposed transitional risk-related assessment system is addressed in a separate notice of proposed rulemaking contained elsewhere in this issue of the Federal Register ("Proposed Transitional Risk-Related Assessment Regulations").

In accordance with the following discussion, the Board is proposing to increase the current BIF member assessment rate to 0.28 percent per annum, effective for the first seminannual period of 1993 and thereafter. If the Board does not adopt a transitional risk-related assessment system to become effective January 1, 1993, then the assessment rate proposed herein would be a uniform rate applicable to all BIF members. If the Board adopts a transitional risk-related assessment system to become effective at the same time as the proposed rate increase, then the increased assessment rate proposed herein would be the target average assessment rate applicable to BIF members.[1] As explained in the Proposed Transitional Risk-Related Assessment Regulation, the actual assessment rate to be paid by each BIF member would be based on the institution's risk-related classification and may deviate by certain specified gradations from the average rate.

B. Designated Reserve Ratio

Section 7(b) of the FDI Act (12 U.S.C. 1817(b)), as implemented by part 327, requires that all FDIC-insured depository institutions pay to the FDIC semiannual assessments based on the types and dollar amounts of deposits held at such institutions.

As amended by section 302 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (Pub. L. No. 102-242, 105 Stat. 2236)) ("FDIC

[1] Given a risk-related premium schedule (as provided in the Proposed Transitional Risk-Related Assessment Regulation), the actual average assessment rate would depend on the distribution of banks by risk-related classification. Because this distribution would be subject to change over time, the actual average assessment rate may deviate slightly from the target average assessment rate. The target average assessment rate will hereinafter be referred to as the "average assessment rate."

staff estimates that year-end 1996 ndustry tangible equity capitalization vould be nearly $275.7 billion if the 0.23 ercent rate remained in place, and vould drop by about $2,161 million—to pproximately $273.5 billion—if the rate vere raised to 0.28 percent.

For these projections, it was assumed hat banks' dividend rates remained nchanged from those reported in ecember 1991. However, if a bank's rojected equity capital was 4 percent or ss, the bank was assumed to retain all arnings. It was further assumed that ie only source of new capital would be dditions to retained earnings. onsequently, under a 0.28 percent ssessment rate, the total $4,976 million increased pre-tax assessment costs rojected over the next five years sulted in a $2,161 million decline in ipital and a $1,531 million total duction in dividends. The remaining ortion of the assessment costs were fset by the tax benefit of deducting sessment expenses from taxable come.

Equally important to these overall ductions in industry capital is the stribution of these reductions across nks. Projections of individual banks' ngible capitalization through 1996 dicated a small increase in the number poorly capitalized banks under the oposed assessment rate. During 1996, assessment of 0.28 percent was ojected to raise the number of poorly pitalized banks—those with less than ercent tangible capital—by 17 banks ith average tangible assets of $390 llion).

Long-term changes in profitability. If gher assessments result in a long-term duction in bank profitability, capital ll flow out of the banking industry, by ay of lower retained earnings and a duction in new stock offerings. If the ght of capital is substantial, it would sult in shrinkage of the industry and ve implications for credit availability.

In order to assess the impact of higher sessments upon bank profitability, timates were made of the changes in urns on the book value of equity pital which might result under an sessment rate of 0.28 percent. ecifically, banks' 1991 returns on book se equity capital were adjusted to lect the increase in operating costs ter-taxes) which might result from an reased assessment rate. These justments assumed that banks would bear the full after-tax cost of the assessment increase.[5]

The analysis indicates that an increase in the BIF assessment rate to 0.28 percent would reduce bank profitability slightly. Estimates presented in Table 1 (below) show that approximately 62.8 percent of BIF-insured banks, with 58 percent of industry assets, experienced a 0 to 5 percent reduction in their return on equity. In addition, 23.5 percent of BIF-insured banks with 20.7 percent of industry assets were estimated to incur a 5 to 10 percent reduction in return on equity. The median percentage change in return on equity was −4.17 percent.

While it is difficult to estimate the final impact upon industry capital, a moderate amount of industry shrinkage (relative to a situation without higher assessments) may result. Consolidation in the banking industry can occur, however, without increased bank failures. Indeed, the results of this analysis indicate that the impact of the proposed assessment rate increase upon bank earnings and capital will not be so severe as to result in a substantial increase in bank failures.

TABLE 1.—PERCENTAGE CHANGES IN RETURN ON EQUITY ASSOCIATED WITH A 0.28 PERCENT ASSESSMENT RATE

[BIF-Insured Banks, $ Millions]

Percentage change in ROE[1]	Number	Assets
Below −50%	298	$201,222
−25% to −50%	270	80,834
−15% to −25%	477	252,882
−10% to −15%	618	252,968
−5% to −10%	2,888	753,535
0% to −5%	7,714	2,108,375
Missing data	37	4,495
All	12,288	3,634,312

[1] The percentage change in ROE was defined as the adjusted ROE minus the original ROE, divided by the original ROE. (ROE′-ROE)/ROE.

b. *Impact analysis based on a transitional risk-related assessment system—Impact on bank capital and earnings.* The approach used to assess the impact of the proposed risk-related assessement system parallels that used to assess the impact of increases in uniform-rate assessments. Under risk-related assessment rates, however, the extent of potential assessment cost sharing will differ from that under uniform-rate assessments. Under a risk-related assessment rate system, banks paying higher risk-related rates may face competition from banks paying lower risk-related rates, as well as from nonbank competitors. Such competition will reduce the ability of banks paying the higher risk-related rates to pass on costs to customers. For the purposes of this analysis, however, it was assumed that banks would not pass on any of the assessment increase to customers.

Projected capital and earnings: short-term impact. FDIC staff estimated the impact of changing the assesament rate system from a uniform rate of 0.23 percent to the proposed risk-related system, employing an average rate of 0.28 percent. The new rate schedule was assumed to become effective beginning with the first assessment period in 1993. The projections indicate that the impact upon industry capital would be small under the risk-related system using an average rate of 0.28 percent.

Tangible equity capitalization of BIF-insured banks as of December 31, 1992 was approximately $232 billion.[6] FDIC staff estimates that year-end 1996 industry tangible equity capitalization would be nearly $275.7 billion if the 0.23 percent uniform rate remained in place.

? financial reports. The 128 commercial banks e excluded from the analysis due to incomplete ancial information. Tangible capital was defined otal equity capital minus all intangible assets.

[5] A simple expression can be derived to show how these factors will affect profitability.

(1.) ROA′ = [ROA - (Rate Increase)*(Assessment Base/Assets)*(1-T)]

where ROA′ = adjusted return on assets, reflecting an increased assessment rate

ROA = bank's original return on assets (net income/assets)

Rate Increase = new assessment rate - old assessment rate

T = bank's average tax rate

The resulting impact on the return on equity will vary with banks' financial leverage.

(2.) ROE′ = (ROA′)*(assets/equity)

Equation two states that the adjusted return on equity (ROE′) is the product of the adjusted return on assets (ROA′) and the equity multiplier (assets/equity).

Data on individual banks' 1991 average tax rates were used to adjust for the tax deductability of assessments. In the event a bank incurred losses in 1991 and/or received a tax credit, its tax rate was set to zero. To avoid the problems of computing ROEs for insolvent banks, all insolvent banks were excluded from the analysis. Finally, while banks' earnings and hence capitalization will be reduced with higher assessments, adjusted ROEs were estimated using year-end 1991 assets-to-equity ratios in equation 2.

[6] This excludes 15 federal savings banks and 128 commercial and mutual savings banks with combined tangible capital of about $2.1 billion at year-end 1991. The 15 federal savings banks were excluded because of differences between bank and thrift financial reports. The 128 commercial banks were excluded from the analysis due to incomplete financial information.

historical relationships and the informed judgment of staff, rather than on explicit statistical techniques applied to selective historical data.

The staff projected the BIF reserve ratio over a fifteen-year period under numerous scenarios, each scenario representing a combination of the values for each of the factors with a probability based on the combination of probabilities for each of the factors. As a result, it was possible to identify the scenarios under which the BIF would reach the Designated Reserve Ratio of 1.25 percent of insured deposits within the prescribed fifteen years. Furthermore, by adding the probabilities assigned to each scenario, it was possible to calculate the subjective probability that, for a given assessment level, the fund would meet the Designated Reserve Ratio within fifteen years.

More detail regarding this analysis will be provided in the forthcoming Federal Register notice announcing the proposed recapitalization schedule; however, the major results of the analysis are as follows: If assessments are maintained at 23 basis points for the next fifteen years, there would be only a 32 percent chance that the BIF would meet the Designated Reserve Ratio within fifteen years. At 27 basis points there would be a 54 percent chance that the fund would reach the Designated Reserve Ratio within fifteen years. In other words, only at assessment levels starting at 27 basis points would it be more likely than not that the fund would reach the target ratio in time. At higher levels, there would be a greater margin of comfort that the Designated Reserve Ratio would be achieved. At 30 basis points there would be a 69 percent chance of reaching the target. At 35 basis points the probability would rise to 86 percent.

Accordingly, consistent with the data underlying the proposed recapitalization schedule to be issued by the Board in the near future for public comment, the Board proposes to raise the BIF assessment rate for the first semiannual period of 1993 and thereafter from 0.23 percent to 0.28 percent. The increase is needed as part of an overall effort to bring the Actual Reserve Ratio up to the statutorily required Designated Reserve Ratio of 1.25% within fifteen years. Because of the inherent uncertainties involved in determining the appropriate assessment rate, the Board anticipates that it will reconsider the adequacy and appropriateness of the BIF assessment rate as conditions warrant.

B. Impact on Bank Capital and Earnings

1. *In General.* Increases in deposit insurance assessment rates add to insured banks' operating costs. These cost increases will have a measurable effect upon banks' profitability and capitalization. Increases in deposit insurance assessment expenses do not, however, necessarily lead to equally proportionate declines in bank profits. There are at least two factors which can reduce the adverse impact of increased assessments upon banks' profits and capital.

First, some portion of the assessment increase may be passed on to customers in the form of higher borrowing rates, increased service fees, and lower deposit rates. The extent of cost sharing will be dependent upon the level of competition faced by banks. Banks facing little competition should be able to pass a larger portion of the increase in assessment costs on to customers than would banks facing greater competition. For the purposes of this analysis, it was assumed that banks would not pass on any of the assessment increase to customers. Second, deposit insurance assessments are a tax-deductible operating expense for banks. Therefore, the increase in assessment expenses can be used to lower taxable income, thereby reducing the effective after-tax cost of BIF assessments.[2]

The impact of the indicated assessment increase upon banks' book capital is also dependent upon assumptions about dividend policies and new capital issues. If banks maintain dividend levels, despite the increase in operating costs, book capital will decline by the full amount of the after-tax cost of the assessment borne by banks (assuming no new capital issues). That is to say, if dividends are not reduced, then increased operating costs will be reflected in lower retained earnings.

FDIC staff used two approaches to assess the impact of increases in deposit insurance assessment rates upon BIF-insured banks. The first approach was to project bank earnings and capital through 1996 under three alternative deposit insurance assessment regimes: The present uniform rate of 0.23 percent, the proposed uniform rate of 0.28 percent and the proposed risk-related system using an average rate of 0.28 percent. Such projections make it possible to consider the impact of increased assessment costs in light of individual banks' projected earnings, asset quality, and tax status. Short-term projections, however, will not capture the full impact such cost increases may have upon the banking industry. In order to address this shortcoming, a second analysis was done which looked at the potential long-term implications of reductions in bank profitability.

Under the proposed rate increases, the profitability analyses revealed a number of banks which had large estimated changes in return on equity due to the proposed assessment increases. This occurred because at any point there are a number of banks earning near zero profits (or very small losses). In these situations, moderate increases in the assessment rate (for example, 5 basis points) will result in large percentage changes in profitability.[3] It is reasonable to expect, however, that banks earning near zero returns on equity will, in time, either fail or move toward higher levels of profitability. For these reasons, one should focus on the impact on the majority of banks' profitability when analyzing Tables 1 and 2 (below).

2. *Alternative analyses.* The following are alternative impact analyses with one based on the proposed increase in the uniform assessment rate to 0.28 percent and the other based on the Board's adoption of a transitional risk-related assessment system with an average assessment rate of 0.28 percent.

a. *Impact analysis based on a uniform assessment rate of 0.28 percent—Projected capital and earnings: short-term impact.* FDIC staff estimated the impact of increasing the assessment rate from 0.23 percent to 0.28 percent, beginning with the first assessment period in 1993. The projections indicate that the impact upon industry capital would be small.

Tangible equity capitalization of BIF-insured banks as of December 31, 1992 was approximately $232 billion.[4] FDIC

[2] In the event a bank is incurring losses before assessment costs, the additional assessment expense may be used to offset prior-period or future income (loss carry back or loss carry forward), thereby reducing taxes. For simplicity, this analysis assumed no loss carry forward nor loss carry back. This assumption results in a more conservative estimate of the tax benefits from higher assessments. In addition, the average tax rate paid by a bank in 1991 was assumed to apply in future periods for the purposes of projecting bank profits.

[3] To see this, consider the example of a bank with 5 percent equity capital and a 1 percent return on equity. In addition, assume that the bank had an average tax rate of 25 percent and had assessable deposits equal to 80 percent of bank assets. In this situation, a 5 basis point increase in the assessment rate would result in a 60 percent reduction in return on equity.

[4] This excludes 15 federal savings banks and 128 commercial and mutual savings banks with combined tangible capital of about $2.1 billion at year-end 1991. The 15 federal savings banks were excluded because of differences between bank and

Continued

Improvement Act"), section 7(b) also states, in relevant part, that "[i]f the reserve ratio of the Bank Insurance Fund equals or exceeds the fund's designated reserve ratio * * *, the [FDIC] Board of Directors shall set semiannual assessment rates for members of that fund as appropriate to maintain the reserve ratio at the designated reserve ratio." As provided in section 7(b)(1)(B) of the FDI Act (*Id.* at 1817(b)(1)(B)), the designated reserve ratio is 1.25 percent ("Designated Reserve Ratio"). In addition, section 7(b) states that "[i]f the reserve ratio of the Bank Insurance Fund is less than the designated reserve ratio * * *, the [FDIC] Board of Directors shall set the semiannual assessment rates * * * (I) that are sufficient to increase the reserve ratio * * * to the designated reserve ratio not later than one year after such rates are set; or (II) in accordance with a [BIF recapitalization] schedule promulgated by the [FDIC] * * *." *Id.* at 1817(b)(1)(C).

Preliminary information indicates that the BIF's reserve ratio ("Actual Reserve Ratio") at year-end 1991 was substantially below the 1.25 percent Designated Reserve Ratio. Because the BIF is presently significantly undercapitalized, it would be infeasible and undesirable to set an assessment rate to increase the Actual Reserve Ratio to 1.25 percent within one year after such rate is set. Thus, as required by section 7(b), the Board is hereby proposing to increase the BIF assessment rate in accordance with a BIF recapitalization schedule that the Board intends, in the immediate future, to formally propose for public comment in conjunction with this proposed regulation to increase the BIF member assessment rate.

C. Related Proposed Recapitalization Schedule

Section 104 of the FDIC Improvement Act amended section 7(b) to state that, for purposes of recapitalizing an undercapitalized BIF, the FDIC "shall, by regulation, promulgate a schedule that specifies, at semiannual intervals, target reserve ratios for the Bank Insurance Fund, culminating in a reserve ratio that is equal to the designated reserve ratio no later than 15 years after the date on which the schedule becomes effective." *Id.* at 1817(b)(1)(C)(iii).

As noted above, the Board intends in the very near future to propose the initial establishment of a BIF recapitalization schedule. A basic component in developing the schedule is the revenue to be generated over the term of the schedule from assessments collected from BIF members. In order to project the amount of such assessment income in future years, the rate(s) on which the assessments will be based must also be projected.

What the Board is addressing in this proposed rule is the assessment rate applicable to the first semiannual period of the schedule, which will begin January 1, 1993. Because this rate will provide the starting point for the revenue projections underlying the schedule, the Board believes that, in this instance, it should decide upon a proposed rate before it finalizes its decision on a proposed recapitalization schedule.

The assessment rate proposed by the Board is based on the same data and assumptions on which the proposed recapitalization schedule will be based. The staff is currently incorporating the proposed rate into the existing recapitalization schedule data for the purpose of finalizing the schedule. The resulting information will be presented to the Board for its consideration in the immediate future. Upon review of this information, the Board will issue for public comment a proposed recapitalization schedule to become effective January 1, 1993.

Although this proposed regulation to increase the BIF assessment rate is being published for notice and comment in advance of a proposed recapitalization schedule, it is intended that the comment periods for this proposed rule and the proposed recapitalization schedule will concide for at least the final 30 days. The Board believes that the advance publication of this proposed rule and a thirty-day overlapping comment period with the proposed recapitalization schedule will provide the public with a meaningful opportunity to comment on the respective proposals, and the interrelationship thereof.

II. Proposed Transitional Risk-Based Assessment System

Section 302(a) of the FDIC Improvement Act amended section 7(b) of the FDI Act to require that the FDIC establish a risk-based assessment system, applicable to members of both BIF and the Savings Association Insurance Fund, to become effective no later than January 1, 1994. Section 302(f) of the FDIC Improvement Act authorized the FDIC to "promulgate regulations governing the transition from the assessment system in effect * * * to [a risk-based assessment system]." As noted above, concurrently with the publication of this proposed rule, the Board also has issued for comment the Proposed Transitional Risk-Related Assessment Regulation. As also noted above, if such a transitional step toward implementing a risk-based assessment system becomes effective on January 1, 1993, it is anticipated that, on an industry-wide basis, the average assessment rate (as distinguished form the uniform rate) paid by BIF members would be 0.28 percent, the rate proposed herein.

III. Factors Considered in the Proposed BIF Assessment Rate Increase

A. Need for the Increase

As noted above, the Designated Reserve Ratio is currently set by statute at 1.25 percent, to be achieved within a fifteen-year period. *Id.* at 1817(b)(1)(B). The Actual Reserve Ratio is substantially below that level. The Actual Reserve Ratio and the BIF's balance have both declined significantly. The Actual Reserve Ratio has not approached 1.25 percent since 1981, when it was 1.24 percent. The BIF's balance peaked in 1987 at $18.3 billion, but even at that time was only 1.10 percent of insured deposits. Since 1987, the Actual Reserve Ratio has continued to decline, falling to 0.21 percent at year-end 1990 (when the BIF balance was $4.4 billion). Preliminary figures indicate that both the BIF reserve ratio and the BIF balance were significantly below zero at the end of 1991.

The long-term condition of the BIF depends directly on the amount of assessment income provided by BIF members, the number and size of future bank failures and the costs of resolving failures. The level of failed bank assets combined with the assumed resolution cost rate determines insurance losses over the prescribed fifteen-year period in which to achieve the Designated Reserve Ratio. Furthermore, growth assumptions affect the analysis in three ways: Through BIF revenue, which increases for a given assessment rate as the assessment base grows; through failed bank assets, which are assumed to grow with industry assets; and by increasing the fund balance necessary to achieve the Designated Reserve Ratio as insured deposits grow.

Given a set of assumptions about these factors, it is relatively straightforward to project the BIF's balance over a fifteen-year period. However, analysis based on a single set of assumptions ignores the considerable uncertainty surrounding these factors. To deal with this uncertainty, the FDIC staff examined a range of values for failed bank assets, resolution costs, and industry growth, ranging from optimistic to pessimistic values. Each value was assigned a probability based on and would drop by about $2.872 million—to approximately $272.8 billion—if the average risk-related rate were 0.28 percent.[7]

For these projections, it was assumed that banks' dividend rates remained unchanged from those reported in December 1991. However, if a bank's projected equity capital was 4 percent or less, the bank was assumed to retain all earnings. It was further assumed that the only source of new capital would be additions to retained earings. Consequently, under an average risk-related rate of 0.28 percent the $5,765 million in increased assessment costs projected over the next five years resulted in a $2,872 million decline in capital and a $1,582 million total reduction in dividends. The remaining portion of the assessment costs were offset by the tax benefit of deducting assessment expenses from taxable income.

Equally important to these overall reductions in industry capital is the distribution of these reductions across banks. Projections of individual banks' tangible capitalization through 1996 indicated a small increase in the number of poorly capitalized banks under the proposed assessment rates. During 1996, an average risk-related assessment of 0.28 percent was projected to raise the number of poorly capitalized banks—those with less than 3 percent tangible capital—by 28 banks (with average tangible assets of $325 million).

Long-term changes in profitability. If higher assessments result in a long-term reduction in bank profitability, capital will flow out of the banking industry, by way of lower retained earnings and a reduction in new stock offerings. If the flight of capital is substantial, it would result in shrinkage of the industry and have implications for credit availability.

In order to assess the impact of higher assessments upon bank profitability, estimates were made of the changes in returns on the book value of equity capital which might result under an average risk-related assessment rate of 0.28 percent. Specifically, banks' 1991 returns on book value equity capital were adjusted to reflect the increase in operating costs (after-taxes) which might result from increased assessment rates. These adjustments assumed that banks would bear the full after-tax cost of the assessment increase.

The analysis indicates that an increase in the BIF assessment rate to an average risk-related rate of 0.28 percent would reduce bank profitability slightly. Estimates presented in Table 2 (below) show that approximately 76.3 percent of BIF-insured banks, with 60 percent of industry assets, experienced at 0 to 5 percent reduction in their return on equity. In addition, 12.1 percent of BIF-insured banks with 18.3 percent of industry assets were estimated to incur a 5 to 10 percent reduction in return on equity. The median percentage change in return on equity was −2.56 percent.

While it is difficult to estimate the final impact upon industry capital, a moderate amount of industry shrinkage (relative to a situation without higher assessments) may result. Consolidation in the banking industry can occur, however, without increased bank failures. Indeed, the results of this analysis indicate that the impact of the proposed assessment rate increase upon bank earnings and capital will not be so severe as to result in a substantial increase in bank failures.

TABLE 2.—PERCENTAGE CHANGES IN RETURN ON EQUITY BASED UPON THE PROPOSED RISK-RELATED ASSESSMENT SCHEDULE AVERAGE RATE OF 0.28 PERCENT

[BIF-insured Banks, $ Millions]

Percentage change in ROE[1]	Number	Assets
Below −50%	272	$209,822
−25% to −50%	263	161,723
−15% to −25%	389	265,931
−10% to −15%	465	147,751
−5% to −10%	1,484	665,279
0% to −5%	9,378	2,179,311
Missing data	37	4,495
All	12,288	3,634,312

[1] The percentage change in ROE was defined as the adjusted ROE minus the original ROE, divided by the original ROE, (ROE −ROE)/ROE

IV. Comment Period

The Board hereby requests comments on the proposed rule. Interested persons are invited to submit written comments during a sixty-day comment period.

List of Subjects in 12 CFR Part 327

Assessments, Bank deposit insurance; Financing Corporation; Savings associations.

For the reasons stated above, the Board proposes to amend part 327 of title 12 of the Code of Federal Regulations as follows:

1. The authority citation for part 327 continues to read as follows:

Authority: 12 USC 1441, 1441b, 1817–19.

2. Section 327.13(c) is revised to read as follows:

§ 327.13 Payment of assessment.

* * * * *

(c) *Assessment rate.* (1) The annual assessment rate for each BIF member shall be, for the semiannual periods of calendar year 1992, 0.23 percent; and

(2) The (annual or average) assessment rate for BIF members, shall be, for the first semiannual period of calendar year 1993 and for subsequent semiannual periods, 0.28 percent.

By order of the Board of Directors.

Dated at Washington, DC, this 12th day of May, 1992.

Federal Deposit Insurance Corporation.

Hoyle L. Robinson,

Executive Secretary.

[FR Doc. 92–11887 Filed 5–20–92; 8:45 am]

BILLING CODE 6714-01-M

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12 CFR Part 327

RIN 3064–AA96

Assessments

AGENCY: Federal Deposit Insurance Corporation.

ACTION: Proposed rule.

SUMMARY: The Board of Directors ("Board" of the Federal Deposit Insurance Corporation ("FDIC") is proposing to amend part 327 of its regulations, 12 CFR part 327 ("part 327"), to increase the deposit insurance assessments to be paid by Savings Association Insurance Fund ("SAIF") members during the first semiannual period of calendar year 1993 and thereafter. The intended effect of this proposed rule is to recapitalize the SAIF within a reasonable period of time.

DATES: Written comments must be received by the FDIC on or before July 20, 1992.

ADDRESSES: Written comments shall be addressed to the Office of the Executive Secretary, Federal Deposit Insurance Corporation, 550—17th Street, NW., Washington, DC, 20429. Comments may be hand-delivered to room F-400, 1776 F Street, NW., Washington, DC 20429 on business days between 8:30 a.m. and 5 p.m.

FOR FURTHER INFORMATION CONTACT: William R. Watson, Director, Division of Research and Statistics, Federal Deposit Insurance Corporation, 550 Seventeenth St., NW., Washington, DC, 20429, (202) 898–3946.

[7] These projections may also be stated in terms of the ratio of tangible capital to tangible assets. As of year-end 1991, the tangible capital ratio for BIF-insured banks was 6.45 percent. The projected year-end 1996 tangible capital ratio under a uniform-rate assessment of 0.23 percent was 7.37 percent. Projected industry 1996 tangible capital ratios under the average risk-related assessment rate of 0.28 percent was lower, however, at 7.10 percent.

Attachment 3

Proposed Rules

Federal Register
Vol. 57, No. 99
Thursday, May 21, 1992

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 327

RIN 3064–AA37

Assessments

AGENCY: Federal Deposit Insurance Corporation.

ACTION: Proposed rule.

SUMMARY: The Board of Directors ("Board") of the Federal Deposit Insurance Corporation ("FDIC") is proposing to revise its assessments regulations, 12 CFR part 327, to provide for the transition from the existing flat-rate system for deposit insurance assessments (or "premiums") to a new, risk-based assessment system. The transition regulation is expressly authorized by section 302 of the FDIC Improvement Act of 1991, which also mandates the implementation of a risk-based assessment system no later than January 1, 1994.

Under the proposed transitional system, FDIC-insured depository institutions that are members of either the Bank Insurance Fund ("BIF") or the Savings Association Insurance Fund ("SAIF") would pay insurance premiums at rates based on certain risk-related factors. Institutions assigned to higher-risk categories—that is, institutions that pose a greater risk of loss to their respective deposit insurance funds—would pay assessments at higher rates than would institutions that pose a lower risk.

Although the transition proposal introduces elements of a risk-based system, it is intended only as a preliminary step toward the mandatory risk-based system to be proposed and finalized after a transitional system has been adopted.

Also proposed at this time are certain revisions of part 327 that are independent of the transitional assessment system proposal. These revisions would update subpart D to conform it to the "Oakar" provisions of section 501 of the FDIC Improvement Act, and update § 327.7 to conform it to current Treasury Department value-of-funds policies.

DATES: Written comments must be received by the FDIC on or before July 20, 1992.

ADDRESSES: Written comments shall be addressed to the Office of the Executive Secretary, Federal Deposit Insurance Corporation, 550–17th Street NW., Washington, DC 20429. Comments may be hand-delivered to room F–400, 1776 F Street, NW., Washington, DC 20429, on business days between 8:30 a.m. and 5 p.m.

FOR FURTHER INFORMATION CONTACT: George French, Chief, Financial Markets Section, Division of Research and Statistics, (202) 898–3938; or William Farrell, Chief, Receipts Section, Division of Accounting and Corporate Services, (703) 516–5546.

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

No collections of information pursuant to section 3504(h) of the Paperwork Reduction Act (44 U.S.C. 3501 et seq.) are contained in the proposed rule. Consequently, no information has been submitted to the Office of Management and Budget for review.

Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601–612) does not apply to a rule of particular applicability relating to rates, wages, corporate or financial structures or reorganizations thereof. Id. at 601(2). Accordingly, the Act's requirements regarding an initial and final regulatory flexibility analysis (id. at 603 & 604) are not applicable here.

In any event, the assessment obligations that would result from the proposal would be determined by an institution's deposit base and the risk posed to the FDIC. The first element as a matter of course fulfills the primary purpose of the Regulatory Flexibility Act, which is to make sure that agencies' rules do not impose disproportionate burdens on small businesses.

The second element—the risk posed to the deposit insurance fund of which the institution is a member—is clearly one intended by Congress, as evidenced by the mandate in the FDIC Improvement Act of 1991 for implementation of a risk-based assessment system.

Accordingly, the Board hereby certifies that the proposed rule, if adopted in final form, will not have a significant economic impact on a substantial number of small entities within the meaning of the Act.

The Proposed Rule

I. Statutory Background

Section 7(b) of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. 1817(b), currently provides for a single, uniform assessment rate established by the FDIC for all BIF member institutions and a single, uniform rate for all institutions that are members of the Savings Association Insurance Fund ("SAIF").[1] The assessment rate currently applicable to members of both BIF and SAIF is .23 percent per annum. As noted below however, the FDIC has issued two separate Notices of Proposed Rulemaking, both of which also appear in today's Federal Register addressing proposed increases in the BIF and SAIF assessment rates, respectively, effective January 1, 1993 ("Rate Increase Proposals").

In December 1991, the Federal Deposit Insurance Corporation Improvement Act of 1991 (Pub. L. No 102–242, 105 Stat. 2236) ("FDIC Improvement Act") was signed into law. Section 302(a) of that statute requires that the FDIC Board, by regulation, establish a risk-based assessment system for insured depository institutions. Section 302 of the FDIC Improvement Act also requires that regulations establishing the risk-based assessment system be proposed by the FDIC no later than December 31, 1992, promulgated no later than July 1, 1993, and become effective no later than January 1, 1994. Section 302(c) and (g).

In addition to the risk-based assessment regulations required by section 302(a) of the FDIC Improvement Act, section 302(f) of that statute authorizes the FDIC to promulgate regulations governing the transition from the assessment system in effect on the date of enactment of the statute to the assessment system required under section 302(a) of the statute. It is such

[1] At present, section 7(b)(1)(D) of the FDI Act imposes on SAIF members an assessment rate of not less than .23 percent. However, the FDIC is authorized to increase the rate beyond this level.

ransitional regulations that this roposal addresses.

The transitional system reflected in his proposal is intended as a preliminary step toward the risk-based ystem the Board is required to nplement by January 1, 1994 hereinafter referred to as the permanent" risk-based assessment ystem). Under the proposal, the ansitional system is to become ffective January 1, 1993, and to remain effect until implementation of the ermanent risk-based assessment ystem on January 1, 1994. It is nticipated that this transitional pproach will provide an opportunity for ll interested parties to evaluate the npact and effectiveness of the various omponents of the preliminary system efore a permanent risk-based ssessment system is finalized and nplemented. The permanent system ill be developed in part on the basis of xperience with the transitional system.

Description of the Proposed ransitional System

The major elements of the transitional stem proposed by the Board are:

(1) Definition of discrete groups and bgroups of institutions, based on risk-lated factors;

(2) A risk-related rate schedule; and

(3) Payment and collection ocedures.

Definition of Risk-Related assifications

1. *Risk measures.* The FDIC nsidered numerous approaches to easuring the risk posed by FDIC-sured depository institutions to their spective deposit insurance funds. me of these approaches have the awback of relying solely on Call port or Thrift Financial Report data. blicly-available financial information ay not reflect important risk factors, ch as loan underwriting standards, anagement quality, or other elements an institution's operations that can ve a substantial impact on the risk sed by the institution. Such factors best evaluated through the ntinuing supervisory monitoring ocess.

The federal banking agencies—the IC, the Federal Reserve Board, the fice of the Comptroller of the rrency, and the Office of Thrift pervision—have devoted substantial ources to the development of ocedures for monitoring and aluating the safety and soundness of ured depository institutions. Agency gments about the risk posed by titutions to the insurance funds are sed on the findings obtained through various contacts with the institutions, off-site statistical analysis of financial statements and reports, and evaluation of other information collected on the financial condition of the institutions. The Board believes that these supervisory judgments generally provide a sounder basis for determining the risk to the insurance funds than data available solely in an institution's public financial statements and reports.

At the same time, the Board is reluctant to place exclusive reliance on supervisory evaluations. One of the desirable attributes of a risk-related premium system would be to give weak depository institutions an immediate financial reward for improving their financial condition in an objective and defined manner. Such an incentive is provided by a system which based premiums in part upon the institutions' capital ratios as reported on Call Reports and Thrift Financial Reports. By meeting specified capital ratios, weak institutions would be able to reduce their deposit insurance premiums. Greater capital increases the institution's cushion against loss and increases the owners' stake in a sound operation. For these reasons, the Board believes that capital ratios should play an important role in a risk-related premium system.

Accordingly, the Board proposes that the deposit insurance assessment rates to be paid by insured institutions be determined on the basis of the institutions' capital ratios and supervisory evaluations.

2. *Defining the assessment risk classifications—Capital groups.* Under the Board's proposal, institutions would be assigned to one of three capital groups: well capitalized, adequately capitalized, or less than adequately capitalized. For this purpose, the Board proposes to apply to "well capitalized" and "adequately capitalized" the same capital-ratio standards as will be applied to those terms by the federal banking agencies for prompt corrective action purposes under section 131 of the FDIC Improvement Act. Institutions in the "less than adquately capitalized" group would be those that do not qualify as either well capitalized or adequately capitalized under the prompt corrective action capital-ratio standards.

The banking agencies have not yet issued proposals for implementation of the prompt corrective provisions of the FDIC Improvement Act. Thus, the Board cannot at this time provide precise language for its proposed definitions either in this discussion section or in the proposed revisions to the text of part 327. However, the prompt corrective action proposals—including the referenced capital-ratio standards—are expected to be issued in the very near future, in time to permit interested parties sufficient opportunity to comment in this rulemaking proceeding on the proposed capital-ratio standards as they apply to the Board's proposed transitional assessment system.

Supervisory subgroups. Within each of the three capital groups, the Board proposes three supervisory subgroups. The result would be nine assessment risk classifications. The FDIC would assign institutions to subgroups based on its judgment of the risk posed by each institution. In forming this judgment, the FDIC would consider supervisory evaluations by the institution's primary federal supervisor and, for state-chartered institutions, evaluations by its state supervisor. In addition, the FDIC would consider other information it determined to be relevant to the institution's financial condition and the risk posed to its deposit insurance fund, including such information as call-report data and analysis and debt ratings.

The three supervisory subgroups would be "healthy," "supervisory concern", and "substantial supervisory concern". "Healthy" institutions would be those financially sound institutions with only a few minor weaknesses. The "supervisory concern" subgroup would consist of institutions with weaknesses which, if not corrected, could result in significant deterioration of the institution and increased risk to the BIF or SAIF. The "substantial supervisory concern" subgroup would consist of institutions that pose a substantial probability of loss to the BIF or SAIF unless effective corrective action is taken.

It is expected that under the proposal, the largest number of institutions would be classified as "well capitalized" and "healthy", which is the lowest risk (and thus carries the lowest rate) of the nine assessment risk classifications. This has two particularly relevant implications. First, if the "average" assessment rate (that is, the rate achieved by dividing total assessment revenue by the total assessment base, which is essentially the rate applied under a flat-rate system) is to be increased, it would be very difficult to avoid increasing the rate applicable to these institutions. If the largest aggregation of institutions were paying the same or less, any revenue increases would necessarily have to be collected entirely from a minority of institutions, at relatively higher rates.

Second, there is no incentive provided by risk-related premiums for these institutions to improve their performance. Since these institutions constitute a large proportion of insured institutions, this absence of assessment-rate incentive to improve their condition somewhat undermines the intended "carrot" effect of risk-related premiums to induce safety-and-soundess improvements.

Accordingly, the Board invites comment on whether it should define a separate, smaller group or subgroup of institutions posing minimal risk to the insurance funds, and, if so, how such a category should be defined. In particular, comments are sought on the appropriateness of considering the ratings assigned to an institution's debt by nationally-recognized private firms and on any additional role appropriately played by capital ratios in defining minimal risk institutions.

Comment is also requested regarding the use of capital and supervisory factors as risk measures, the specific capital and supervisory measures proposed, and the definitions proposed for the respective assessment risk classifications. This includes comment as to whether premium rates should be based on solely objective factors, such as one or more financial ratios derived from insured institutions' financial reports, instead of, or in addition to, the proposed capital and supervisory factors. Also invited is comment concerning the role to be played by off-site supervisory analyses of reported data—and the type of data that should be considered—in assigning assessment risk classifications.

B. Proposed Risk-Related Rate Schedule

In order to avoid undue disruption and hardship to weak institutions, the Board proposes a transitional assessment system with a relatively narrow range between the rate applicable to the lowest-risk institutions and the rate to be paid by the highest-risk institutions. In making the proposal, however, the Board is aware that the narrowness of this range means that rates cannot be assigned solely on the basis of risk, to the exclusion of all other considerations, since the increments between classifications cannot be fully consistent with the differences in failure probabilities. For some institutions, an actuarially fair premium would amount to a confiscatory tax. The FDIC's position as a public, monopoly insurer makes it difficult to impose such large premiums. Yet if the weakest institutions are to be undercharged, then safer institutions must, by comparison, be overcharged to some extent in order to maintain adequate revenue.

While there are strong arguments in favor of wider rate differences, it is believed that these arguments are more appropriately considered in connection with the permanent risk-based system the Board is required to implement by 1994. At this time, it is anticipated that the Board will propose a broader range of rates for the permanent system, and that an incremental rate increase of one or two basis points, beyond the schedule rate, will also be applied for each one or two semiannual periods an institution remains in a high risk classification.[8] For purposes of the proposed transitional system, however, the Board believes that a more modest approach is merited. In the Board's view, the proposed schedule achieves a reasonable preliminary step toward reducing the cross-subsidization that exists with a flat-rate system, and provides increased incentive for weaker institutions to improve their safety and soundness.

In the proposed risk-related assessment schedule, shown below, the rates applicable to both BIF and SAIF institutions assigned to the nine assessment risk classifications are expressed in terms of a number of basis points above or below an average assessment rate. The average assessment rate(s) for members of BIF and SAIF, respectively, effective for the period beginning January 1, 1993, are addressed by the two separate FDIC Rate Increase Proposals appearing elsewhere in this issue of the Federal Register. Analyses of the impact of the proposed risk-related assessment schedule on BIF and SAIF members, respectively, are presented in these Rate Increase Proposals.

RISK-RELATED ASSESSMENT SCHEDULE

	Healthy	Supervisory concern	Substantial supervisory concern
Well capitalized	a−3	a	a+2
Adequately capitalized	a	a+2	a+2
Less than adequately capitalized	a+2	a+2	a+3

It is important to note that this proposed schedule is based on currently available information, such as year-end 1991 financial data for insured institutions, and certain assumptions and estimates made by the FDIC staff relating to such matters as the assessment bases of insured institutions and the distribution of insured institutions among the nine assessment risk classifications. If it appears at the time the Board acts on a final transitional system that these data and assumptions must be revised, the final schedule might differ from the proposed schedule.

As discussed in the FDIC Rate Increase Proposals referred to above, the Board has proposed that the assessment rates for BIF members and SAIF members respectively be increased to 28 basis points. Applying this proposed rate as the average assessment rate represented by "a" in the proposed risk-related rate schedule produces the following rates for the various assessment risk classifications:

	Healthy	Supervisory concern	Substantial supervisory concern
Well capitalized	25	28	30
Adequately capitalized	28	30	30
Less than adequately capitalized	30	30	31

The Board welcomes comment on the proposed schedule, including the degree of rate gradations among the assessment risk classifications.

C. Payment and Collection Procedures

Under the proposed transitional system, just as under the current system, each insured institution would calculate its assessment by multiplying its assessment based by its assessment rate. The principal difference under the proposed transitional system is that, rather than applying the same uniform rate applicable to all other institutions in the same deposit insurance fund, the institution would enter its risk-related assessment rate on its certified statement to be filed with the FDIC under section 7(c) of the FDI Act and part 327 of the FDIC's regulations, and calculate its assessment payment on the basis of that rate.

It is proposed that the FDIC will provide each institution notice of its assessment risk classification and rate for the next semiannual period no later than December 1 for the semiannual period beginning January 1, and no later than June 1 for the semiannual period beginning July 1. Although it is fully intended and contemplated that all insured institutions would receive such notice, the Board proposes that in the event an institution does not receive

[8] These are matters for future determination, and the permanent risk-based assessment system proposed by the Board in the coming months will be published for public comment before the end of the year.

notice of its assessment risk classification and rate by the first day of the semiannual period, the institution would be required to apply the "a[illegible]ge" rate, which will be the rate sta[illegible] at 12 CFR 327.13(c) for BIF members and at 12 CFR 327.23(d) for SAIF members. (The "average" rate for both BIF and SAIF members currently is 23 basis points, but, as indicated above, the Board is proposing to increase each of these rates to 28 basis points, as discussed in the separate Rate Increase Proposals also appearing in this issue of the Federal Register.) Once such institution is provided notice of its assessment rate classification and rate for the semiannual period, it would then be required to pay any additional assessment due based on its assigned classification, plus interest on the additional amount, or be due a refund, plus interest, from the FDIC in the amount of any overpayment.

D. Other Elements

1. *Timing of implementation of the proposed transitional risk-related assessment system.* It is proposed that the transitional risk-related assessment system become effective January 1, 1993. Comment is invited as to whether the proposed transitional system should be put into place at an earlier date, at a later date, or not implemented at all thus deferring action until imple[illegible]ntation of the statutorily-man[illegible]d permanent system).

2. *Date of determination of assessment risk classification.* To the extent the assessment risk classification assigned to an institution would be based under the proposal on the institution's reported capital, the classification assigned would be based on data reported in the institution's Call Report due June 30 for the semiannual period beginning the following January 1 and December 31 for the semiannual period beginning the following July 1. For institutions filing Thrift Financial Reports, the capital portion of the assessment risk classification would be based on the reports with the due dates closest to June 30 and December 31 that include the necessary capital data.

The reason for this relatively early cut-off date is the lengthy period of time (generally two to three months) required for financial data to be reported, processed, edited and analyzed; and the importance of providing reasonable notice to institutions of their assessment risk classifications. The Board invites comment on these considerations.

The FDIC is also exploring the possibility of a general cut-off date beyond which no new or additional information concerning any institution would be considered by the FDIC for the purpose of assigning assessment risk classifications. The Board invites comments on this issue.

3. *Review of assessment risk classification.* The FDIC is exploring the matter of an appropriate review process for disputed assessment risk classifications. At present, the FDIC is contemplating an informal process by which any insured institution disagreeing with its classification assignment could, by letter, seek review from the FDIC Regional Director for the region in which the institution is located. For issues not resolved at the regional level that satisfy certain criteria, further review would be available by written request to the Director of the FDIC's Division of Supervision ("DOS"). In order the qualify for this level of review, the disputed matter must be material to the institution's safety and soundness, have a significant effect on the institution's operation or management, or have a material impact on the federal supervision of the institution. Determination as to whether one of these criteria is satisfied by a particular request would be made by the DOS Director or his or her designee.

Whatever the status or outcome of any request for review, institutions would be expected to make timely assessment payments based on the classification assigned. Any adjustments for overpayment, with interest, would be made once the review process has been completed.

It is contemplated that the review procedure outlined above would apply only to those determinations pertaining to assessment risk classification that are made by the FDIC. To some extent, the FDIC's determinations are expected to be based on or influenced by decisions and judgments of other agencies. As to those decisions and judgments, it seems appropriate that any questions be addressed to the other agency.

The Board invites comments regarding this proposed review procedure, including comments addressing the criteria to be applied by the FDIC in accepting requests for review.

4. *Disclosure of assessment risk classification or rate.* Because of the sensitive nature of the supervisory information underlying an institution's assessment risk classification, the Board is considering the imposition of broad restrictions on the disclosure of such information. However, in order to avoid unnecessary regulation, the Board seeks comment as to the appropriate nature and extent of disclosure restrictions, including what exemptions should be permitted if a broad prohibition is adopted.

5. *Institutions in conservatorship and bridge banks.* Under the Board's proposal, bridge banks (that is, banks provided for in section 11(n) of the FDI Act, 12 U.S.C. 1821(n)) and insured institutions in FDIC or Resolution Trust Corporation conservatorships would be required to pay the "average" assessment rate (as discussed above under "Payment and Collection Procedures"). These institutions are under the control of the federal government and action is being taken to correct the problems that resulted in that situation. It is assumed that the deposit insurance funds will not incur any additional losses arising from activities in which the institutions engage while they are in the conservatorship or bridge-bank status. Furthermore, the premium rate paid by these institutions does not affect the ultimate loss to the insurance funds, since any assessments they pay result in a corresponding reduction in their net worth and, hence, a corresponding increase in resolution costs. Accordingly, the Board believes that such institutions pose, at most, only moderate risk of additional loss to the deposit insurance funds.

The Board requests comments on this proposed treatment of conservatorships and bridge banks.

6. *Separate Systems for Small and Large Institutions.* Section 302(a) of the FDIC Improvement Act authorizes the FDIC in implementing the permanent risk-based assessment system to establish separate risk-based assessment systems for large and small members of each deposit insurance fund. Although the Board does not propose to establish separate systems based on size for purposes of the transitional risk-related system, it does request comment on whether separate permanent risk-based assessment systems should be established under section 302(a) and, if so, what the composition of the respective systems, and the differences between the separate systems, should be.

III. Other Proposed Changes to Part 327

A. "Oakar" Transactions

Section 501 of the FDIC Improvement Act amended section 5(d)(3) of the FDI Act (12 U.S.C. 1815(d)(3)) to permit, under prescribed conditions, "any insured depository institution" to engage in certain transactions with any other insured depository institution during the period in which converting from the BIF to SAIF and from SAIF to BIF is generally prohibited under Section 5(d)(2)(A)(ii) of the FDI Act. This amendment became effective on December 19, 1991, the enactment date of the FDIC Improvement Act.

Prior to the enactment of the FDIC Improvement Act, only certain bank holding companies that controlled qualifying savings associations could engage in so-called "Oakar" transactions. The expanded range of transactions in which "any insured depository institution" qualifying under section 5(d)(3) may now engage, as a result of the aforementioned FDIC Improvement Act amendments, are defined in section 5(d)(2)(B) (ii), (iii), and (iv) of the FDI Act.

The proposal would conform subpart D to provide for the expanded scope of institutions now permitted to engage in "Oakar" transactions and to provide the means to determine the deposit assessments to be paid by such institutions. The proposal also would amend subpart D to conform the computation of the "adjusted attributable deposit amount" (that is, the deposit base used to determine the amount to be paid by an institution involved in an "Oakar" transaction on the deposits obtained in that transaction) to the changes made by the "Oakar" provisions of the FDIC Improvement Act.

B. Calculation of Interest Under Section 327.7

In its current form, § 327.7, which pertains to the payment of interst on delinquent assessment payments and on assessment overpayments, contemplates use of a Treasury Department value-of-funds rate issued on a quarterly basis. However, it is currently the Treasury Department's general practice to issue an annual rate, rather than a quarterly rate. Accordingly, the Board proposed to amend § 327.7 to incorporate this development.

In addition, the Board proposes to revise paragraph (a) of § 327.7 to update a citation and to clarify the period for which the FDIC will pay interest to an insured institution for any overpayment of an assessment.

Request for Public Comment

The Board hereby requests comment on all aspects of its proposed transitional risk-related assessment system and other proposed amendments to Part 327. Interested persons are invited to submit written comments during a 60-day comment period.

List of Subjects in 12 CFR Part 327

Assessments, Bank deposit insurance, Financing Corporation, Savings associations.

For the reasons stated above, the Board proposes to amend 2 CFR part 327 as follows:

PART 327—ASSESSMENTS

1. The authority citation for part 327 continues to read as follows:

Authority: 12 U.S.C. 1441, 1441b, 1817–19.

2. Section 327.3 is amended by adding paragraphs (d) and (e) to read as follows:

§ 327.3 Payment of semiannual assessments.

* * * * *

(d) *Annual assessment rate*—(1) *Assessment risk classification*. For the purpose of determining its annual assessment rate, each insured institution will be assigned an "assessment risk classification". By the first day of the month preceding each semiannual period, each institution will be provided notice of its assessment risk classification for that period. Each institution's assessment risk classification, which will be composed of a group and a subgroup assignment, will be based on the following capital factors and supervisory evaluations:

(i) *Capital factors*. Institutions will be assigned to one of the following three capital groups on the basis of data reported in the institution's call report, or thrift financial report containing the necessary capital data, for the report due date that is closest to the last day of the seventh month preceding the current semiannual period:

(A) *Well capitalized*. This group consists of institutions * * * [To be inserted here is the capital-ratio standard for "well-capitalized" to be proposed by the Board for its prompt corrective action regulations under section 38 of the Federal Deposit Insurance Act.] For assessment risk classification purposes, the short-form designation for this group is "1".

(B) *Adequately capitalized*. This group consists of institutions * * * [To be inserted here is the capital-ratio standard for "adequately capitalized" to be proposed by the Board for its prompt corrective action regulations under section 38 of the Federal Deposit Insurance Act.] For assessment risk classification purposes, the short-form designation for this group is "2".

(C) *Less than adequately capitalized*. This group consists of institutions that do not qualify as either "well capitalized" or "adequately capitalized" under paragraph (d)(1)(i)(A) or (d)(1)(i)(B) of this section. For assessment risk classification purposes, the short-form designation for this group is "3".

(ii) *Supervisory evaluations*. Within its capital group, each institution will be assigned to one of three subgroups on the basis of supervisory evaluations by the institution's primary federal supervisor and, if applicable, state supervisor, and such other information as the Corporation determines to be relevant to the institution's financial condition and the risk posed to the BIF or SAIF, including such information as call report data and analysis and debt ratings. The three supervisory subgroups are:

(A) *Healthy*. This subgroup consists of financially sound institutions with only a few minor weaknesses. For assessment risk classification purposes, the short-form designation for this subgroup is "A";

(B) *Supervisory concern*. This subgroup consists of institutions that demonstrate weaknesses which, if not corrected, could result in significant deterioration of the institution and increased risk of loss to the BIF or SAIF. For assessment risk classification purposes, the short-form designation for this subgroup is "B"; and

(C) *Substantial supervisory concern*. This subgroup consists of institutions that pose a substantial probability of loss to the BIF or SAIF unless effective corrective action is taken. For assessment risk classification purposes, the short-form designation for this subgroup is "C".

(2) *Classification notice not provided; average assessment rate*. Any institution to which notice of its assessment risk classification for the current semiannual period is not provided by the first day of the period shall preliminarily compute its assessment based on the "average assessment rate", which for purposes of this part 327 means the rate provided for at § 327.13 for BIF members or § 327.23(d) for SAIF members. If such institution is subsequently assigned for that period an assessment risk classification for which the applicable rate is other than the average assessment rate, any excess assessment paid by the institution pursuant to the preceding sentence shall promptly by refunded by the Corporation, with interest, and any additional assessment owed shall promptly be paid by the institution, with interest. Interest payable under this paragraph (d)(2) shall be at the rate provided for in § 327.7(b).

(e) *Rate schedule*—(1) *In general*. Subject to paragraph (e)(2) of this section, the schedule below states the annual assessment rate applicable to the respective assessment risk classifications provided for in paragraph

(d) of this section. The schedule, which utilizes the group and subgroup designations specified in paragraph (…) of this section, states the …able rates in terms of basis points above or below the average assessment rate, as defined in paragraph (d)(2) of this section.

SCHEDULE

Capital group	Supervisory subgroup A	B	C
1	a−3	a	a−2
2	a	a−2	a−2
3	a−2	a−2	a−3

(2) The annual assessment rate applicable to institutions that are bridge banks under 12 U.S.C. 1821(n) and to institutions for which either the Corporation or the Resolution Trust Corporation has been appointed conservator shall in all cases be the average assessment rate.

3. Section 327.7 is amended by revising paragraphs (a)(1)(ii)(A), (a)(2), (b)(1), and (b)(2) to read as follows:

§ 327.7 Payment of interest on delinquent assessment payments and assessment overpayments.

(a) * * *

* * *

* * *

(A) In the case of an assessment to be paid by a bank, the assessment is postmarked after the time for payment specified in § 327.13;

* * * * *

(2) *Payment by corporation.* The Corporation will pay interest to an insured depository institution for any timely overpayment of an assessment from the time the assessment payment is due, as specified in § 327.13 or § 327.22, to the date of disbursement by the Corporation of the overpayment amount.

(b) * * *

(1) *Current year.* The rate as determined by the most recent published TFRM rate.

(2) *Prior years.* The interest will be calculated based on the reate issued under the TFRM for each applicable period and compounded annually. For the initial year, the rate will be applied to the gross amount of the underpayment or overpayment. For each additional year or portion thereof, the rate will be applied to the net amount of the underpayment or overpayment after that amount has been reduced by the assessment credit, if any, for the year.

4. Subpart D of part 327 is revised to read as follows:

Subpart D—Insured Depository Institutions Participating in Section 5(d)(3) Transactions

Subpart D—Insured Depository Institutions Participating in Section 5(d)(3) Transactions

§ 327.31 Scope.

(a) *Affected institutions.* This subpart D applies to any insured depository institution that:

(1) Is either a BIF or SAIF member; and

(2) Is the assuming, surviving, or resulting institution in a transaction undertaken pursuant to section 5(d)(3) of the Federal Deposit Insurance Act.

(b) *Duration.* This subpart D shall cease to apply to an insured depository institution if:

(1) On or after August 9, 1994, the Corporation approves an application by an insured depository institution to treat the transaction described in paragraph (a) of this section as a conversion transaction; and

(2) The insured depository institution pays the amount of any exit and entrance fee assessed by the Corporation with respect to such transaction.

§ 327.32 Computation and payment of assessment.

(a) *Responsibility for computation.* Each insured depository institution subject to this subpart D shall compute its own assessment.

(b) *Rate of assessment*—(1) *BIF and SAIF member rates.*

(i) Except as provided in paragraphs (b)(2)(i) and (b)(2)(ii) of this section, the assessment to be paid by a BIF member subject to this subpart D shall be computed at the rate applicable to BIF members and the assessment to be paid by a SAIF member subject to this subpart D shall be computed at the rate applicable to SAIF members.

(ii) Such applicable rate shall be applied to the insured depository institution's assessment base less that portion of the assessment base which is equal to the institution's adjusted attributable deposit amount.

(2) *Rate applicable to the AADA.* (i) Notwithstanding paragraph (b)(1)(i) of this section, that portion of the assessment base of any acquiring, assuming, or resulting institution that is a BIF member which is equal to the adjusted attributable deposit amount of such institution shall:

(A) Be subject to assessment at the assessment rate applicable to SAIF members pursuant to § 327.3(e) and subpart C of this part; and

(B) Not be taken into account in computing the amount of any assessment to be allocated to BIF.

(ii) Notwithstanding paragraph (b)(1)(i) of this section, that portion of the assessment base of any acquiring, assuming, or resulting institution that is a SAIF member which is equal to the adjusted attributable deposit amount of such institution shall:

(A) Be subject to assessment at the assessment rate applicable to BIF members pursuant to § 327.3(e) and subpart B of this part; and

(B) Not be taken into account in computing the amount of any assessment to be allocated to SAIF.

(3) *Adjusted attributable deposit amount.* An insured depository institution's "adjusted attributable deposit amount" for any semiannual period is equal to the sum of:

(i) The amount of any deposits acquired by the institution in connection with the transaction (as determined at the time of such transaction) described in § 327.31(a);

(ii) The total of the amounts determined under paragraph (b)(3)(iii) of this section for semiannual periods preceding the semiannual period for which the determination is being made under this section; and

(iii) The amount by which the sum of the amounts described in paragraphs (b)(3)(i) and (b)(3)(ii) of this section would have increased during the preceding semiannual period (other than any semiannual period beginning before the date of such transaction) if such increase occurred at a rate equal to the annual rate of growth of deposits of the acquiring, assuming, or resulting depository institution minus the amount of any deposits acquired through the acquisition, in whole or in part, or another insured depository institution.

(4) *Deposits acquired by the institution.* As used in paragraph (b)(3)(i) of this section, the term "deposits acquired by the institution" means all deposits that are held in the institution acquired by such institution on the date of such transaction: provided, that if the Corporation or the Resolution Trust Corporation has been appointed as conservator or receiver for the acquired institution, such term:

(i) Does not include any deposit held in the acquired institution on the date of such transaction which the acquired institution has obtained, directly or indirectly, by or through any deposit broker;

(ii) Does not include that part of any remaining deposit held in the acquired institution on the date of such transaction that is in excess of $80,000; and

(iii) Is limited to 80 per centum of the remaining portion of the aggregate of the deposits specified in paragraph (b)(4)(ii) of this section.

(5) *Deposit broker.* As used in paragraph (b)(4) of this section, the term "deposit broker" has the meaning specified in section 29 of the Federal Deposit Insurance Act (12 U.S.C. 1831f).

(c) *Procedures for computation and payment.* An insured depository institution subject to this subpart D shall follow the payment procedure that is set forth in subpart B of this part.

§ 327.33 Form of certified statement.

The certified statement to be filed by an insured depository institution subject to this subpart D shall be in the form prescribed by the Corporation.

By order of the Board of Directors.

Dated at Washington, DC, this 12th day of May, 1992.

Federal Deposit Insurance Corporation.

Hoyle L. Robinson,

Executive Secretary.

[FR Doc. 92-11886 Filed 5-20-92; 8:45 am]

BILLING CODE 6714-01-M

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12 CFR Part 327

RIN 3064-AA96

Assessments

AGENCY: Federal Deposit Insurance Corporation.

ACTION: Proposed rule.

SUMMARY: The Board of Directors ("Board") of the Federal Deposit Insurance Corporation ("FDIC") is proposing to amend part 327 of its regulations, 12 CFR part 327 ("part 327"), to increase the deposit insurance assessment to be paid by Bank Insurance Fund ("BIF") members starting with the first semiannual period of calendar year 1993 and thereafter. The intended effect of this proposed rule is to recapitalize the BIF within the statutorily prescribed period of fifteen years.

DATES: Written comments must be received by the FDIC on or before July 20, 1992.

ADDRESSES: Written comments shall be addressed to the Office of the Executive Secretary, Federal Deposit Insurance Corporation, 550—17th Street, NW., Washington, DC, 20429. Comments may be hand-delivered to room F-400, 1776 F Street NW., Washington, DC 20429, on business days between 8:30 a.m. and 5 p.m..

FOR FURTHER INFORMATION CONTACT: William R. Watson, Director, Division of Research and Statistics, Federal Deposit Insurance Corporation, 550—17th Street NW., Washington, DC, 20429, (202) 898-3946.

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

No collections of information pursuant to section 3504(h) of the Paperwork Reduction Act (44 U.S.C. 3504(h)) are contained in the proposed rule. Consequently, no information has been submitted to the Office of Management and Budget for review.

Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601-612) does not apply to the publication of "a rule of particular applicability relating to rates." *Id.* at 601(2). Accordingly, the Act's requirements relating to an initial and final regulatory flexibility analysis (*Id.* at 603 & 604) are not applicable here.

Moreover, in connection with the current uniform-rate deposit assessment system (*i.e.*, one in which the same assessment rate applies to all insured depository institutions), the primary purpose of the Regulatory Flexibility Act is fulfilled as a matter of course, in that each institution's assessment is geared to the institution's size (as measured generally by domestic deposits).

Thus, the Board hereby certifies that the proposed increase in the deposit assessment rate, if adopted in final form and applied to the current uniform-rate assessment system, would not have a significant economic impact on a substantial number of small entities within the meaning of the Act.

Also, as discussed below, concurrently with the publication of this proposal, the FDIC has proposed for comment a transitional risk-related deposit insurance system. That proposal is addressed elsewhere in this issue of the Federal Register as a separate notice of proposed rulemaking. As discussed in that proposal, the Board has determined that the proposed transitional risk-related assessment system, if adopted in final form, also would not have a significant economic impact on a substantial number of small entities within the meaning of the Act.

The Proposed Rule

I. Background for the Proposed BIF Assessment Rate Increase

A. Related Proposed Transition From a Uniform-Rate to a Risk-Based Assessment System

The assessment rate paid by BIF members presently is 0.23 percent per annum. Under the current uniform-rate system, all BIF members calculate and pay their assessments based on the same rate. As discussed below, concurrently with the publication of this proposed rule, the Board also has proposed a transitional risk-related assessment system pursuant to which the assessment rate applicable to a BIF member would depend on the risk-related assessment classification assigned to that institution by the FDIC. The proposed transitional risk-related assessment system is addressed in a separate notice of proposed rulemaking contained elsewhere in this issue of the Federal Register ("Proposed Transitional Risk-Related Assessment Regulations").

In accordance with the following discussion, the Board is proposing to increase the current BIF member assessment rate to 0.28 percent per annum, effective for the first seminannual period of 1993 and thereafter. If the Board does not adopt a transitional risk-related assessment system to become effective January 1, 1993, then the assessment rate proposed herein would be a uniform rate applicable to all BIF members. If the Board adopts a transitional risk-related assessment system to become effective at the same time as the proposed rate increase, then the increased assessment rate proposed herein would be the target average assessment rate applicable to BIF members.[1] As explained in the Proposed Transitional Risk-Related Assessment Regulation, the actual assessment rate to be paid by each BIF member would be based on the institution's risk-related classification and may deviate by certain specified gradations from the average rate.

B. Designated Reserve Ratio

Section 7(b) of the FDI Act (12 U.S.C. 1817(b)), as implemented by part 327, requires that all FDIC-insured depository institutions pay to the FDIC semiannual assessments based on the types and dollar amounts of deposits held at such institutions.

As amended by section 302 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (Pub. L. No. 102-242, 105 Stat. 2236)) ("FDIC

[1] Given a risk-related premium schedule (as provided in the Proposed Transitional Risk-Related Assessment Regulation), the actual average assessment rate would depend on the distribution of banks by risk-related classification. Because this distribution would be subject to change over time, the actual average assessment rate may deviate slightly from the target average assessment rate. The target average assessment rate will hereinafter be referred to as the "average assessment rate."