

12 CFR Part 327**Assessments; Retention of Existent Assessment Rate Schedule for SAIF-Member Institutions**

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Confirmation of assessment rate.

SUMMARY: On November 14, 1995, the Board of Directors of the FDIC (Board) adopted a resolution to retain the existing assessment rate schedule applicable to members of the Savings Association Insurance Fund (SAIF) for the first semiannual assessment period of 1996. As a result of this action, the SAIF assessment rate to be paid by depository institutions whose deposits are subject to assessment by the SAIF will continue to range from 23 cents per \$100 of assessable deposits to 31 cents per \$100 of assessable deposits, depending on risk classification.

EFFECTIVE DATE: January 1, 1996, through June 30, 1996.

FOR FURTHER INFORMATION CONTACT: James R. McFadyen, Senior Financial Analyst, Division of Research and Statistics, (202) 898-7027; Claude A. Rollin, Senior Counsel, Legal Division, (202) 898-3985; or Valerie Jean Best, Counsel, Legal Division, (202) 898-3812; Federal Deposit Insurance Corporation, Washington, D.C. 20429.

SUPPLEMENTARY INFORMATION:**I. Summary**

Based upon the results of its semiannual review of the capitalization of the SAIF and of the SAIF assessment rates, the Board has determined to retain the existing assessment rate schedule applicable to SAIF-member institutions for the first semiannual assessment period of 1996 so that capitalization of the SAIF is accomplished as soon as possible. As a result of this action, the SAIF assessment rate to be paid by institutions whose deposits are subject to assessment by the SAIF will continue to range from 23 cents per \$100 of assessable deposits to 31 cents per \$100 of assessable deposits, depending on risk classification.

Despite the general good health of the thrift industry, the SAIF is not in good condition and it remains significantly undercapitalized. On June 30, 1995, the SAIF had a balance of \$2.6 billion, or about 37 cents in reserves for every \$100 in insured deposits. An additional \$6.3 billion would have been required on that date to fully capitalize the SAIF to its designated reserve ratio (DRR) of 1.25 percent of estimated insured deposits. As of September 30, 1995, the SAIF balance had grown to \$3.1 billion,

although the reserve ratio for that date cannot be determined until insured deposits as of September 30 become available in December. At the current pace, and under reasonably optimistic assumptions, the SAIF would not reach the statutorily mandated DRR until at least the year 2002. The failure of a single large SAIF-insured institution or several sizeable institutions or an economic downturn leading to higher than anticipated losses could render the fund insolvent. While the FDIC is not currently predicting such thrift failures, they are possible.

The main source of income for the SAIF is assessments. A sizable portion of the SAIF's ongoing assessments (up to \$793 million annually) is diverted to meet interest payments on obligations of the Financing Corporation (FICO). Reducing assessment rates to the lowest minimum average rate permitted by law—18 basis points—is presently projected to delay SAIF capitalization until 2005, and it would cause a FICO shortfall as early as 1996. Moreover, there will still be a significant differential between assessment rates of the Bank Insurance Fund (BIF) and the SAIF even if the Board reduces the SAIF assessments to the minimum average allowed by statute.

II. Statutory Provisions Governing SAIF Assessment Rates**A. Section 7 of the Federal Deposit Insurance Act**

Section 7(b) of the Federal Deposit Insurance Act (FDI Act) governs the Board's authority for setting assessments for SAIF members. 12 U.S.C. 1817(b). Section 7(b)(1) (A) and (C) require that the FDIC maintain a risk-based assessment system, setting assessments based on (1) the probable risk to the fund posed by each insured depository institution taking into account different categories and concentrations of assets and liabilities and any other relevant factors; (2) the likely amount of any such loss; and (3) the revenue needs of the fund. Section 7(b)(2)(A)(iii) further directs the Board to impose a minimum assessment on each institution not less than \$1,000 semiannually. The Board must set semiannual assessments and the DRR for each deposit insurance fund independently. FDI Act section 7(b)(2)(B).

The Board must set semiannual assessments for SAIF members to maintain the reserve ratio at the DRR or, if the reserve ratio is less than the DRR, to increase the reserve ratio to the DRR. FDI Act section 7(b)(2)(A)(i). The reserve ratio is the dollar amount of the fund balance divided by estimated

SAIF-insured deposits. The DRR for the SAIF is currently 1.25 percent of estimated insured deposits, the minimum level permitted by the FDI Act. In setting SAIF assessments to achieve and maintain the DRR, the Board must consider the SAIF's expected operating expenses, case resolution expenditures and income, the effect of assessments on members' earnings and capital, and any other factors that the Board may deem appropriate. FDI Act section 7(b)(2)(D).

Before January 1, 1998, if the SAIF remains below the DRR, the total amount raised by semiannual assessments on SAIF members may not be less than the amount that would have been raised if section 7(b) as in effect on July 15, 1991 remained in effect. See FDI Act section 7(b)(2) (E) and (F). The minimum rate required by section 7(b) as then in effect was 0.18 percent.

Beginning January 1, 1998, all minimum assessment provisions applicable to BIF members also apply to SAIF members. Under these provisions, if the SAIF remains below the DRR, the total amount raised by semiannual assessments on SAIF members may not be less than the amount that would have been raised by an assessment rate of 0.23 percent. See FDI Act section 7(b)(2)(E).

The Board thus has the legal authority to reduce SAIF assessment rates to a minimum average of 18 basis points until January 1, 1998. Beginning January 1, 1998, however, the minimum average rate must be 23 basis points until SAIF achieves its DRR of 1.25 percent.

In setting semiannual assessments for members of the SAIF, beginning January 1, 1998, if the reserve ratio of the SAIF is less than the DRR, the Board must set semiannual assessments either, (a) at rates sufficient to increase the reserve ratio to the DRR within 1 year after setting the rates, or (b) in accordance with a schedule for recapitalization, adopted by regulation, that specifies target reserve ratios at semiannual intervals culminating in a reserve ratio that is equal to the DRR not later than 15 years after implementation of the schedule. FDI Act section 7(b)(3). Section 8(h) of the Resolution Trust Corporation Completion Act (RTCCA), Pub. L. No. 103-204, 107 Stat. 2369, 2388, amended section 7(b)(3) to allow the Board, by regulation, to amend the SAIF capitalization schedule to extend the date by which the SAIF must be capitalized beyond the 15-year time limit to a date which the Board determines will, over time, maximize the amount of semiannual assessments received by the SAIF, net of insurance