FDIC Restoration Plan
and
Proposed Changes to the Risk-Based Assessment System

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Restoration Plan

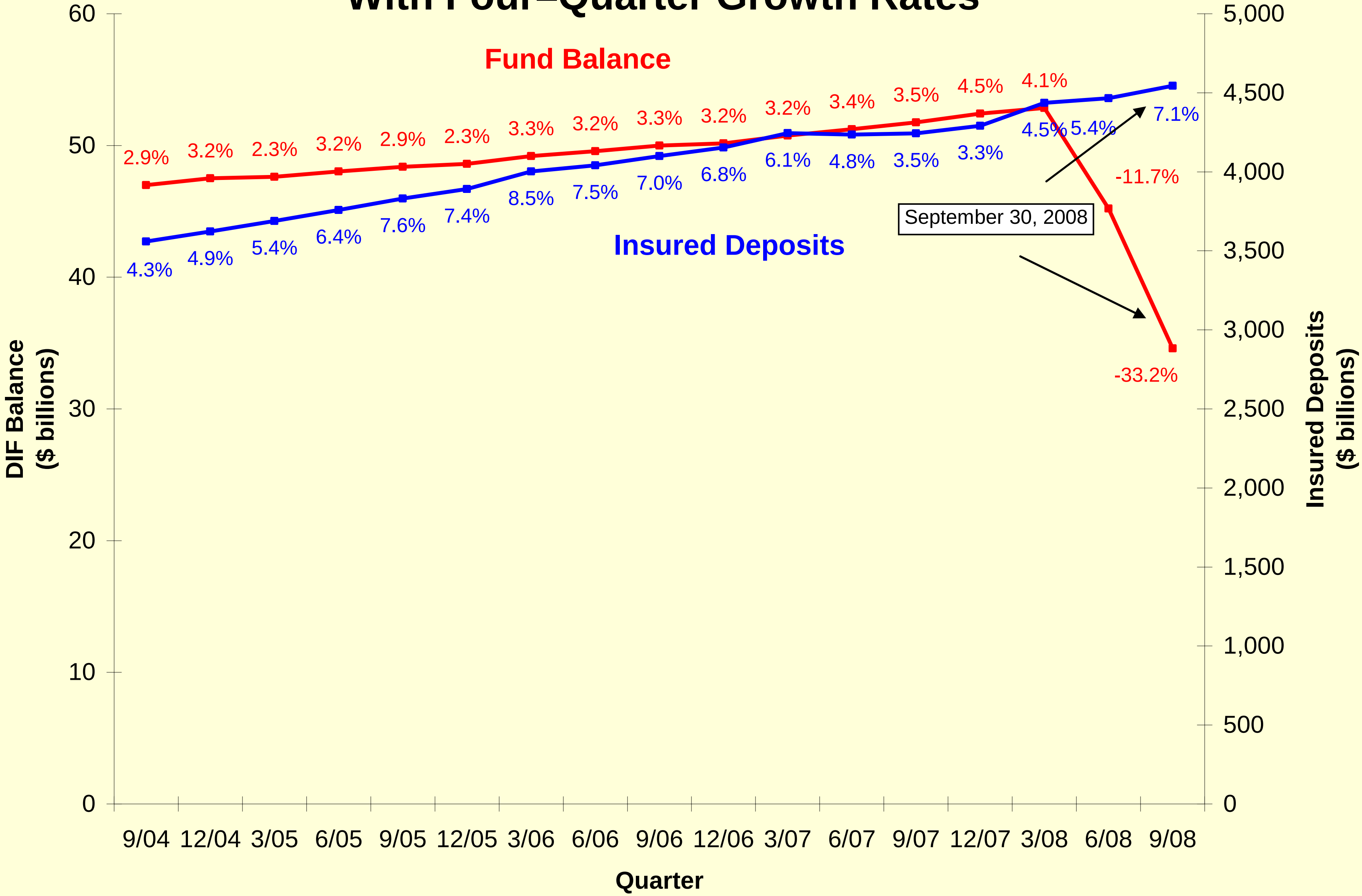
- Recent bank failures have resulted in a significant decline in the Deposit Insurance Fund (DIF) balance. The decline in the DIF caused the reserve ratio to fall to 0.76 percent in September from 1.01 percent in June and 1.19 percent in March.

- This is the lowest reserve ratio for the combined bank and thrift insurance funds since June 1994.

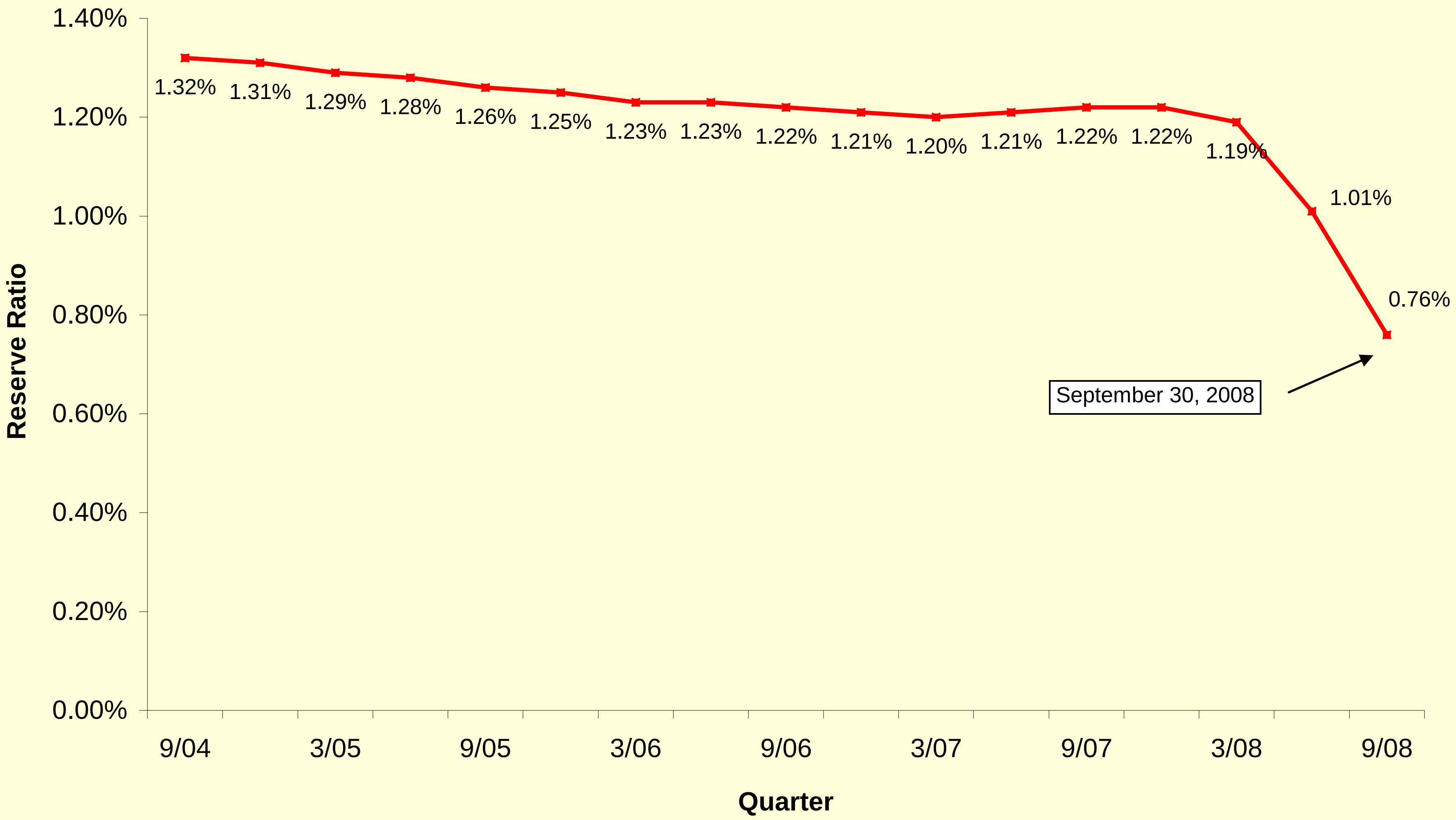
- With the reserve ratio below 1.15 percent, FDIC must develop a restoration plan that will raise the reserve ratio to at least 1.15 percent within five years (in the absence of extraordinary circumstances).

- On October 7, 2008, the FDIC established a restoration plan, and in conjunction with it, published a notice of proposed rulemaking that would raise assessment rates and make other changes to the risk-based assessment system. These changes are primarily to ensure that riskier institutions will bear a greater share of the proposed increase in assessments.

Fund Balance and Insured Deposit Trends With Four–Quarter Growth Rates



The DIF Reserve Ratio is below the 1.15 percent lower bound



2007-08 Risk-Based Assessment Rates

	Risk Categories				
	I*		II	III	IV
	Min	Max			
Annual Rates Expressed in Basis Points	**5**	**7**	**10**	**28**	**43**

*Rates for institutions that did not pay the minimum or maximum rate would vary between 5 and 7 basis points.

These rates are 3 basis points above the base rate schedule adopted in the 2006 final rule.

FDIC may adjust rates +/- 3 basis points from the base rate schedule without giving notice to and seeking comment from the public.

Assessment Rates
1st Quarter of 2009 Only

	Risk Categories				
	I*		II	III	IV
	Min	Max			
Annual Rates Expressed in Basis Points	**12**	**14**	**17**	**35**	**50**

*Rates for institutions that did not pay the minimum or maximum rate would vary between 12 and 14 basis points.

The FDIC has raised rates uniformly by 7 basis points for all institutions for **first quarter 2009 only**, resulting in a range of 12 to 50 basis points.

Proposed Initial Base Rates, Adjustments, and Total Base Assessment Rates Beginning 2nd Quarter of 2009

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial base assessment rate	10 – 14	20	30	45
Unsecured debt adjustment	-2 – 0	-2 – 0	-2 – 0	-2 – 0
Secured liability adjustment	0 – 7	0 – 10	0 – 15	0 – 22.5
Brokered deposit adjustment		0 – 10	0 – 10	0 – 10
Total Base Assessment Rate	**8 – 21.0**	**18 – 40**	**28 – 55**	**43 – 77.5**

•Effective in the second quarter of 2009, and together with several other proposed changes to the risk-based assessment system:

- •Initial rates in risk category I would range between 10 and 14 basis points.
- •The initial rates for risk categories II, III, and IV would be 20, 30 and 45 basis points, respectively.

Proposed Risk-Based Assessment Rates for Risk Category I (Beginning 2nd Quarter 2009)

- 4 basis point difference between minimum and maximum initial base assessment rates for Risk Category I institutions.

  -- Currently, a range of 2 basis points for Risk Category I

  - Under the proposal, about 25% each of established small institutions and large institutions in Risk Category I would have been charged the minimum assessment rate based on June 30, 2008 data
  - 15% each of established small institutions and large institutions in Risk Category I would have been charged the maximum rate

- As under the current rule, changes in financial ratios and other risk measures over time may change the percentages of institutions charged the minimum or maximum initial rates in Risk Category I

- Small changes in risk measures will produce at most small changes in assessment rates.

Assessment Rates for Most Insured Institutions in Risk Category I (Financial Ratios Method)

- For most institutions in Risk Category I, the FDIC will continue to use a combination of CAMELS component ratings and financial ratios to determine risk-based assessment rates.

- Proposal would add a ratio accounting for rapid asset growth funded by brokered deposits.

- Pricing multipliers for each financial ratio and the average CAMELS component rating will come from a model that relates these risk measures historically to the frequency of downgrades to supervisory (CAMELS) ratings of 3 or worse in the succeeding year.

Risk Category I
Example of Financial Ratios Method

Risk Measures	Risk Measure Value		Pricing Multiplier		Contribution to Assessment Rate
Uniform Amount			9.872		9.872
Tier 1 Leverage Ratio (%)	8.570	X	(0.056)	=	(0.480)
Loans Past Due 30-89 Days/Gross Assets (%)	0.600	X	0.576	=	0.345
Nonperforming Assets/Gross Assets (%)	0.400	X	1.073	=	0.429
Net Loan Charge-Offs/Gross Assets (%)	0.079	X	1.213	=	0.096
Net Income before Taxes/Risk Weighted Assets (%)	1.951	X	(0.762)	=	(1.487)
Adjusted Brokered Deposit Ratio (%)*	**12.827**	X	**0.055**	=	**0.705**
Weighted Average CAMELS Component Ratings	1.450	X	1.088	=	1.578
Sum of Contributions					11.06
Initial Base Assessment Rate					**11.06**

Example: For an institution with an assessment base of $500 million, annual assessment based on the initial rate is: $500 million x 11.06 basis points = $553,000

Proposed Pricing Method for Large Banks with Debt Rating (Large Bank Method)

- Currently, the initial assessment rate for large Risk Category I banks with debt ratings relies on CAMELS component and long-term debt issuer ratings, equally weighted.

- Under the proposal, for institutions with $10 billion or more in assets that have a long-term debt issuer rating, the assessment rate is determined by:
  - Weighted average CAMELS component rating (1/3)
  - Long-term issuer rating (1/3)
  - Assessment rate from financial ratios method (1/3)

- Example of long-term issuer rating conversion:

Long-Term Debt Issuer Rating(s)	Rating	Converted
Standard and Poor's Long-Term Debt Issuer Rating	A-	2.200
Moody's Long-Term Debt Issuer Rating	A2	1.800
Fitch's Long-Term Debt Issuer Rating	A-	2.200
Average Converted Long-Term Debt Issuer Rating		**2.067**

Example of Large Bank Method For Risk Category I

Risk Measures	Risk Measure Value		Pricing Multiplier		Contribution to Initial Assessment Rate
Uniform Amount			1.651	=	1.651
Average Converted Long-term Debt Issuer Rating*	2.067	X	1.764	=	3.646
Weighted Average CAMELS Component Rating	1.450	X	1.764	=	2.558
Converted Financial Ratio Method	**1.530**	X	**1.764**	=	**2.699**
Sum of Contributions					10.55
Initial Base Assessment Rate					**10.55**

Example: For an institution with an assessment base of $20 billion, annual assessment based on the initial rate is: $20 billion x 10.55 basis points = $21,100,000

*Converted to a scale of 1 to 3.

Adjustment for Large Banks

- Additional information considered to determine if adjustment to an institution's assessment rate is appropriate (regardless of method).

- Additional information considered includes:
  - market data
  - financial performance and condition data; and
  - stress considerations.

- Any adjustment will be limited to a <u>1 basis point change up or down</u> in an institution's initial assessment rate. Currently, the maximum adjustment is ½ basis point.

Proposed Adjustments: Brokered Deposits

- For institutions in Risk Category I, the financial ratios method would include a new financial ratio that may increase the rate of an institution relying significantly on brokered deposits to fund rapid asset growth.

- This would only apply to institutions with brokered deposits of more than 10 percent of domestic deposits and cumulative asset growth of more than 20 percent over the last 4 years, adjusted for mergers and acquisitions.

- Like the other financial ratios used to determine rates in Risk Category I, a small change in the value of the new ratio may lead to only a small rate change, and it would not cause an institution's rate to fall outside of the 10-14 basis point initial range.

- For institutions in risk categories II, III, or IV, the FDIC proposes to increase an institution's assessment rate above its initial rate if its ratio of brokered deposits to domestic deposits is greater than 10 percent, regardless of the rate of asset growth. Such an increase would be capped at 10 basis points.

Adjusted Brokered Deposit Ratio Examples

A	B	C	D	E	F
Example	Ratio of Brokered Deposits to Domestic Deposits	Ratio of Brokered Deposits to Domestic Deposits Minus Threshold (Column B - 10 Percent)	Cumulative Asset Growth Rate over Four Years	Asset Growth Rate Factor	Adjusted Brokered Deposit Ratio (Column C X Column E)
1	5%	0%	5%	0	0%
2	15%	5%	5%	0	0%
3	5%	0%	25%	0.25	0%
4	35%	25%	30%	0.5	12.5%
5	25%	15%	50%	1.0	15.0%

Proposed Adjustments: Secured Liabilities

- For institutions in any risk category, assessment rates would rise above initial rates for institutions relying significantly on secured liabilities.

- Assessment rates would increase for institutions with a ratio of secured liabilities to domestic deposits of greater than 15 percent, with a maximum increase of 50 percent above the rate before such adjustment.

- Therefore, the maximum increase for a Risk Category I institution due to secured liabilities would be 7 basis points (50% of the 14 bp initial maximum rate)

- Secured liabilities generally include Federal Home Loan Bank advances, repurchase agreements, secured Federal Funds purchased, and other secured borrowings.

Proposed Adjustments: Unsecured Debt and Tier 1 Capital

- Institutions would receive a lower rate if they have long-term unsecured debt, including senior unsecured and subordinated debt with a remaining maturity of one year or more.

- For a large institution, the rate reduction would be determined by multiplying the institution's long-term unsecured debt as a percentage of domestic deposits by 20 basis points. The maximum allowable rate reduction would be 2 basis points.

- For a small institution, the proposal would also treat certain amount of Tier 1 capital like unsecured debt for this adjustment. The amount of qualifying Tier 1 capital would be the sum of one-half of the amount between 10 percent and 15 percent of adjusted average assets and the full amount of Tier 1 capital exceeding 15 percent of adjusted average assets.

Example: Proposed Adjustments

Suppose a Risk Category I Institution has an initial base assessment rate of 11.06 bps and the following characteristics:

- $100 Million in domestic deposits
- $ 6 Million in Qualified Tier 1 Capital and Long Term Subordinated Debt

  (downward adjustment = 6/100*20bps = 1.20bps)
- $20 Million in Secured Liabilities

  (upward adjustment = [20/100 - .15]*9.86 = 0.49bps)

➢ Initial Base Assessment Rate	11.06 basis points
➢ Unsecured Debt Adjustment	-1.20 basis points
➢ Secured Liability Adjustment	+0.49 basis points
Final Assessment Rate	**10.35 basis points**

Distribution of Institutions and Domestic Deposits June 30, 2008 data

Total Base Assessment Rates

Risk Category	Total Base Assessment Rate	Number of Institutions	Percent of Institutions	Domestic Deposits (Billions of $)	Percent of Domestic Deposits
I	8 – 10	1,834	22%	806.6	11%
	10.01 – 12	2,674	32%	3,047.6	43%
	12.01 – 14	2,588	31%	1,632.5	23%
	14.01 – 21	632	7%	589.7	8%
II	18.00 – 20	346	4%	204.7	3%
	20.01 – 40	242	3%	691.8	10%
III	28.00 – 30	72	1%	8.0	0%
	30.01 – 55	49	1%	19.1	0%
IV	43.00 – 45	9	0%	5.8	0%
	45.01 – 77.5	5	0%	23.3	0%

Revenue and Fund Projections Under the Restoration Plan

- In the fall of 2008, FDIC projected roughly $40 billion in failure costs for the six years from 2008 through 2013. Under the proposal, assessments would rise from $3 billion in 2008 to approximately $10 billion in 2009 rates due to higher rates (and exhaustion of credits).
- Since last fall, the outlook for the economy and industry has deteriorated, and it is likely that bank failures will be grater than previously projected.