FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-78-2010
November 10, 2010

Assessments

Notice of Proposed Rulemaking

Summary: On November 9, 2010, the FDIC adopted the attached Notice of Proposed Rulemaking (NPR), which would define the assessment base as "average consolidated total assets minus average tangible equity," as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act); permit certain reductions for banker's banks and "custodial" banks, as allowed by the Act; revise existing adjustments to assessment rates, eliminate one adjustment, and add another; and revise deposit insurance assessment rate schedules in light of the changes to the assessment base. The proposed rate schedule and other revisions to the assessment rules would become effective April 1, 2011, and would be used to calculate the June 30, 2011, invoices for assessments, which will be due September 30, 2011. Comments on the NPR are due 45 days following publication of the NPR in the *Federal Register.*

Distribution:
All FDIC-Insured Institutions

Suggested Routing:
Chief Executive Officer
President
Chief Financial Officer

Related Topics:
FDIC Operational Regulations Governing the Assessment Process, 12 CFR 327.1 to 327.15

Attachment:
Notice of Proposed Rulemaking:
http://www.fdic.gov/news/board/Nov9no6.pdf

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Note:
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Highlights:

- The NPR would change the assessment base to average consolidated total assets (as calculated on a daily basis) minus average tangible equity, which is defined as average end-of-month Tier 1 capital for all institutions. Institutions with less than $1 billion in assets could, however, use end-of-quarter Tier 1 capital.
- The NPR would allow assessment base reductions for banker's banks and custodial banks. Custodial banks are defined in the NPR.
- The NPR would make conforming changes to the unsecured debt adjustment and brokered deposit adjustment, eliminate the secured liability adjustment, and create a new adjustment that would increase the assessment rate for an institution that holds long-term unsecured debt issued by another insured depository institution.
- The NPR would change the assessment rate schedules so that approximately the same amount of revenue would be collected under the new assessment base as would be collected under the current rate schedule and the schedules proposed in October (see FIL-68-2010).

Assessment Base

Average Consolidated Total Assets

- All insured depository institutions (IDIs) would report their average consolidated total assets using the accounting methodology established for reporting total assets as applied to Line 9 of Schedule RC-K of the Call Report (that is, the methodology established by Schedule RC-K regarding when to use amortized cost, historical cost, or fair value), except that all institutions would have to average their balances as of the close of business for each day during the calendar quarter.

Tangible Equity

- Tangible equity would be defined as Tier 1 capital. Average tangible equity would be the average of Tier 1 capital as of each month end in a quarter. Institutions that reported less than $1 billion in quarter-end total consolidated assets on their March 31, 2011, Call Report or TFR may report average tangible equity using an end-of-quarter balance or may at any time opt permanently to report average tangible equity using a monthly average balance. An institution that reports average tangible equity using an end-of-quarter balance and reports average daily consolidated total assets of $1 billion or more for two consecutive quarters shall permanently report average tangible equity using monthly averaging starting in the next quarter.

Banker's Banks

- A banker's bank would have to certify on its Call Report or TFR that it meets the definition of "banker's bank" as set forth in 12 U.S.C. 24.

- A banker's bank's assessment base would exclude the daily average amount of reserve balances "passed through" to the Federal Reserve, the daily average amount of reserve balances held at the Federal Reserve for the bank's own account, and the daily average amount of the bank's federal funds sold. The total exclusion, however, could not exceed the sum of the bank's daily average amount of total deposits of commercial banks and other depository institutions in the United States and the daily average amount of its federal funds purchased. Federal funds purchased and sold on an agency basis would not be included in these calculations as they are not reported on the balance sheet of a banker's bank.

- These exclusions would only apply to a banker's bank that conducts 50 percent or more of its business with non-affiliated entities (as defined under the Bank Holding Company Act or the Home Owners' Loan Act).

Custodial Banks

- A custodial bank would be an institution whose previous calendar year-end custody and safekeeping assets were at least $50 billion or an institution that derived more than 50 percent of its revenue from custody and safekeeping activities during the previous calendar year.

- A custodial bank's assessment base would exclude the bank's daily average amount of highly liquid, short-term assets, not to exceed the daily average value of those deposits held in a custody and safekeeping account. Highly liquid, short-term assets would be defined as those assets with a Basel risk weighting of 20 percent or less and whose stated maturity date is 30 days or less.

Adjustments

Unsecured Debt Adjustment

- The unsecured debt adjustment would be scaled to the new assessment base and would be increased to 40 basis points plus an institution's initial base assessment rate (IBAR) times the amount of long-term unsecured liabilities divided by the amount of the new assessment base. The cap on the unsecured debt adjustment would be the lesser of 5 basis points or 50 percent of an institution's IBAR.

- Unsecured debt would no longer include any Tier 1 capital.

Depository Institution Debt Adjustment

- This new adjustment would increase an institution's assessment by 50 basis points for every dollar of long-term unsecured debt issued by another insured depository institution.

Secured Liability Adjustment

- The secured liability adjustment would be eliminated.

Brokered Deposit Adjustment

- The brokered deposit adjustment would be scaled to the new assessment base.[1] The new formula for brokered deposits would become:

  BDA = ((Brokered deposits – (Domestic deposits*10%))/New assessment base)*25 basis points.

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[1] The definition of brokered deposits for all institutions, which includes reciprocal deposits, would not change.

- The brokered deposit adjustment would apply to all large institutions. For small institutions, the adjustment would continue to apply only to those in risk categories II, III, and IV. Reciprocal deposits would be included in brokered deposits.

Rate Schedules

Rate Schedule Effective April 1, 2011

- Effective April 1, 2011, the initial and total base assessment rates would be as described in Table 1 below. The proposed rates are calculated to collect approximately the same amount of assessment revenue as the current rate schedule and the schedules proposed in October.[2]

Table 1
Proposed Initial and Total Base Assessment Rates*

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and Highly Complex Institutions
Initial base assessment rate	5–9	14	23	35	5–35
Unsecured debt adjustment**	(4.5)–0	(5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment	……	0–10	0–10	0–10	0–10
TOTAL BASE ASSESSMENT RATE	2.5–9	9-24	18-33	30-45	2.5–45

* Total base assessment rates do not include the proposed depository institution debt adjustment.
**The unsecured debt adjustment could not exceed the lesser of 5 basis points or 50 percent of an IDI's initial base assessment rate; thus, for example, an IDI with an IBAR of 5 basis points would have a maximum unsecured debt adjustment of 2.5 basis points and could not have a total base assessment rate lower than 2.5 basis points.

Future Rate Schedules

- In October, the FDIC also proposed schedules of assessment rates that would take effect when the fund reserve ratio first meets or exceeds 1.15 percent and when the reserve ratio meets certain long-term targets (2 percent and 2.5 percent). The proposed rule makes revisions to those proposed rates schedules commensurate with the changes in the assessment base.

[2] See FIL-68-2010.