FDIC

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

Financial Institution Letter
FIL-103-2006
November 30, 2006

DEPOSIT INSURANCE ASSESSMENTS

Final Rules on Assessments and the Designated Reserve Ratio

Summary: The FDIC Board of Directors has approved the attached final rules to amend Part 327 of the FDIC Rules and Regulations governing assessments. One rule creates a new system for risk-based assessments and sets assessment rates beginning January 1, 2007. The other rule sets the designated reserve ratio (DRR) at 1.25 percent. The amendments are being made to implement the Federal Deposit Insurance Reform Act of 2005. The final rules take effect on January 1, 2007.

Distribution:
All FDIC-Insured Institutions

Suggested Routing:
Chief Executive Officer
President
Chief Financial Officer

Related Topics:
FDIC One-Time Assessment Credit Regulations, 12 CFR 327, Subpart B

FDIC Assessment Dividend Regulations, 12 CFR 327, Subpart C

FDIC Operational Regulations Governing the Assessment Process, 12 CFR 327.1 to 327.8

Attachments:
Final Rules

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Highlights:

- *Risk Categories*. The existing nine assessment rate categories are consolidated into four new categories. Risk Category I replaces the old 1A risk category.

- *Risk Category I Institutions.* Assessment rates for individual institutions in Risk Category I will differ, depending upon the risk posed by the institution. For most institutions, assessment rates will depend upon a combination of CAMELS component ratings and financial ratios. For large institutions that have long-term debt issuer ratings, assessment rates will depend upon these ratings and CAMELS component ratings.

- *Assessment Rates*. Effective January 1, 2007, assessment rates will range from 5 to 7 basis points for Risk Category I institutions and will be 10 basis points for Risk Category II institutions, 28 basis points for Risk Category III institutions and 43 basis points for Risk Category IV institutions.

- *Rate Calculator*: The FDIC has updated its assessment rate calculator to reflect the final rule and the adopted rates. The calculator enables institutions in Risk Category I to determine assessment rates under the final rule for given supervisory ratings and financial ratios or, for some large institutions, long-term debt issuer ratings. The calculator is available at: http://www.fdic.gov/deposit/insurance/rule.html.

- *DRR*. The FDIC has set the designated reserve ratio at 1.25 percent, subject to annual review.

Financial Institution Letter
FIL-103-2006
November 30, 2006

DEPOSIT INSURANCE ASSESSMENTS
Final Rules on Risk-Based Assessments and the Designated Reserve Ratio

On November 2, 2006, the FDIC Board of Directors adopted the two attached final rules implementing the Federal Deposit Insurance Reform Act of 2005. One rule creates a new system for risk-based assessments and sets assessment rates beginning January 1, 2007. The other rule sets the designated reserve ratio (DRR) at 1.25 percent.

Assessments

- *Risk Categories*. The existing nine assessment rate categories are consolidated into four new categories. Risk Category I replaces the old 1A risk category.

- *Most Risk Category I Institutions.* For most institutions within Risk Category I, assessment rates will depend upon a combination of CAMELS component ratings and financial ratios.

- *Large Risk Category I Institutions with Long-Term Debt Issuer Ratings*. For large institutions in Risk Category I that have long-term debt issuer ratings, assessment rates will depend upon these ratings (50 percent) and CAMELS component ratings (50 percent).

- *Rate Adjustments for Large Risk Category I Institutions*. For large institutions within Risk Category I, initial assessment rate determinations may be modified within limits upon review of additional relevant information. In the near future, the FDIC plans to propose guidelines for public comment on how adjustments will be made. No adjustments will be made before the guidelines have been adopted. For assessment purposes, a large institution is one that has at least $10 billion in assets, but an institution that has between $5 billion and $10 billion in assets may request treatment as a large institution for assessment purposes, subject to FDIC approval.

- *New Institutions*. Until January 1, 2010, new institutions will be assessed as all other institutions are assessed. Thereafter, subject to exceptions, new institutions (those less than five years old) in Risk Category I will be assessed at the maximum rate applicable to that category. The exceptions apply to certain institutions that result from mergers or consolidations, that are owned by a holding company for an older bank or thrift, that are directly owned by an older bank or thrift, or that are converted credit unions.

- *Base Assessment Rates*. Base assessment rates will range from 2 to 4 basis points for Risk Category I institutions and will be 7 basis points for Risk Category II institutions, 25 basis points for Risk Category III institutions and 40 basis points for Risk Category IV institutions. The Board retains the flexibility to adjust rates without further notice-and-comment rulemaking, provided that no such adjustment can be greater than three basis points from one quarter to the next, that adjustments cannot result in rates more than three basis points above or below the base rates, and that rates cannot be negative.

- *Assessment Rates*. Effective January 1, 2007, the Board has set assessment rates that are three basis points above the base rates. Assessment rates will, therefore, range from 5 to 7 basis points for Risk Category I institutions and will be 10 basis points for Risk Category II institutions, 28 basis points for Risk Category III institutions and 43 basis points for Risk Category IV institutions. Deposit insurance assessments will be in addition to FICO assessments.

- *Rate Calculator*: The FDIC has updated its assessment rate calculator to reflect the final rule and the adopted rates. The calculator enables institutions that are well capitalized and well managed to determine assessment rates under the final rule for given supervisory ratings and financial ratios or, for some large institutions, long-term debt issuer ratings. The calculator is available at: http://www.fdic.gov/deposit/insurance/rule.html.

Designated Reserve Ratio

The FDIC has set the DRR at 1.25 percent.

Other Deposit Insurance Reform Rulemakings

The Reform Act also requires the FDIC to prescribe other implementing rules. On March 14, 2006, the FDIC's Board adopted an interim final rule implementing the substantive changes to the FDIC's insurance coverage rules, effective April 1. (The FDIC's Board adopted a final rule on September 5, 2006.) On October 10, 2006, the FDIC's Board adopted a final rule governing the distribution and use of the $4.7 billion one-time assessment credit and a temporary final rule that expires at the end of 2008 governing dividends from the insurance fund. On November 2, 2006, the Board adopted final rules that: (1) make operational changes to the assessment system; (2) require banks and savings associations to use the same FDIC sign and follow the same advertising rules; and (3) establish penalties for institutions that fail to pay their deposit insurance premiums in a timely manner. All of the foregoing final rules may be viewed at: http://www.fdic.gov/deposit/insurance/initiative/index.html.

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