November 8, 2002

MEMORANDUM TO: Board of Directors

FROM: Arthur J. Murton, Director
Division of Insurance and Research

SUBJECT: BIF Assessment Rates for the First Semiannual Assessment Period of 2003

Recommendation

The staff recommends that the Board maintain the existing Bank Insurance Fund (BIF) assessment rate schedule of 0 to 27 basis points (bp) [1] per year. This rate schedule complies with the statutory requirements of the Federal Deposit Insurance Act for the Board to establish a risk-based assessment system and set assessments only to the extent necessary to maintain the target Designated Reserve Ratio (DRR), currently 1.25 percent.

Summary

The reserve ratio for the BIF stood at 1.26 percent (unaudited) as of June 30, 2002. Although all third-quarter Call Reports have not been filed yet, the best available information indicates that the BIF reserve ratio will be near 1.25 percent as of September 30, 2002. Staff expects that the reserve ratio will remain near 1.25 percent during the upcoming semi-annual assessment period without charging additional premium income. However, the ratio could be somewhat above or below the DRR by June 30, 2003. Even if the ratio falls below 1.25 percent, the Board would have two semiannual assessment periods to bring the ratio back to the

[1] Although the current effective rate schedule is 0 to 27 basis points, the base rate schedule, established in 1995, is still 4 to 31 basis points. The FDIC may alter the existing rate structure and may change the base BIF rates by rulemaking with notice and comment. Without a notice-and-comment rulemaking, the Board has authority to increase or decrease the effective rate schedule uniformly up to a maximum of 5 bp, as deemed necessary to maintain the target DRR.

target. Therefore, staff recommends maintaining the existing assessment rate schedule for this assessment period. Based on June 30, 2002, data and projected ranges for the relevant variables at June 30, 2003, this rate schedule would result in an average annual assessment rate of approximately 0.25 bp.

Another option the Board may wish to consider is to charge additional premiums and then refund amounts not needed to maintain the reserve ratio at the DRR to those institutions classified as "1A" for purposes of the FDIC's risk-related premium system.

While the staff views it most likely that the reserve ratio will remain at or near 1.25 percent over the next semi-annual assessment period, other scenarios are possible. Staff has considered a range of plausible events that could produce significant movements to the BIF reserve ratio. The following analysis focuses primarily on possible adverse scenarios that could result in the Board deciding to charge additional premiums.

ANALYSIS

In setting assessment rates since recapitalization of the BIF, the Board has considered: (1) the probability and likely amount of loss to the fund posed by individual insured institutions; (2) the statutory requirement to maintain the DRR, currently 1.25 percent, and (3) all other relevant statutory provisions.[2]

Current BIF Reserve Ratio

The BIF reserve ratio was 1.26 percent as of June 30, 2002 (unaudited), the latest date for which complete data are available. Some data are available that give a preliminary

[2] The Board is required to review and weigh the following factors when establishing an assessment schedule: a) the probability and likely amount of loss to the fund posed by individual institutions; b) case resolution expenditures and income; c) expected operating expenses; d) the revenue needs of the fund; e) the effect of assessments on the earnings and capital of fund members; and f) any other factors that the Board may deem

indication of the BIF reserve ratio as of September 30, 2002. The fund balance, which is the numerator of the reserve ratio, rose by $196 million to $31.383 billion (unaudited), up from $31.187 billion on June 30, 2002. This increase was primarily supported by significant unrealized gains on available-for-sale securities, which almost fully offset the increase in loss estimates for higher contingent loss reserves for future failures and litigation losses. Consistent with past results, interest and assessment income more than covered basic operating expenses.

Final data on the level of insured deposits, the denominator for the reserve ratio, are not yet available because all September 30, 2002, Call Reports have not yet been filed. However, staff conducted a telephone survey to determine insured deposits at 12 of the largest banks on November 1, 2002 (see Attachment 1 for a discussion of this survey).[3] The survey results combined with preliminary information from Call Reports already received indicate that insured deposits increased by approximately 1.15 percent in the third quarter and stood at about $2,511 billion as of September 30, 2002. While this information does not provide an exact amount of insured deposits, it does provide a reasonable and timely estimate of third quarter insured deposit growth. It also preliminarily indicates that the BIF reserve ratio stood at approximately 1.25 percent as of September 30, 2002. Final data will be published later this year after all Call Reports are received and edited.

Projections for the BIF Reserve Ratio Over the Next Assessment Period

The projected range for the BIF reserve ratio through June 30, 2003, is 1.08 percent to 1.27 percent. Although the low end of the range is well below the statutory requirement of 1.25 percent, staff believes the ratio most likely will remain near 1.25 percent. Factors such as a

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appropriate. These factors directly affect the reserve ratio prospectively and thus are considered as elements of the requirement to set rates to maintain the reserve ratio at the target DRR.

[3] As required by the Paperwork Reduction Act, staff applied for and received approval from the Office of Management and Budget to conduct a telephone survey of the largest institutions that have a 45-day deadline to

likely slow-growth economic recovery, the banking industry's resilience so far to the recent recession and tepid recovery, and moderate insured deposit growth in recent quarters support this conclusion.

Following is an analysis of the anticipated effect of adverse changes in the fund balance and the rate of insured deposit growth on the reserve ratio through June 30, 2003.

1. Fund Balance

Insurance losses, interest income, and unrealized gains and losses on available-for-sale (AFS) securities are significant factors that determine changes in the fund balance over the short run.

Insurance Losses. Insurance losses primarily consist of two components: a contingent liability for future failures and an allowance for losses on institutions that have already failed. Estimated changes in contingent liabilities for the twelve months ending June 30, 2003, were based upon the Financial Risk Committee's (FRC) third quarter estimates of possible failed bank assets using June 30, 2002, asset figures. These estimates were adjusted, where necessary, for: (1) estimated losses on failures that have occurred since June 30, 2002; and (2) potential failures identified subsequent to the FRC's estimates. The resulting range for changes in failure-related contingent liabilities is \$200 million to \$3.5 billion. Table 1 (next page) projects low and high estimates for potential increases in the total provision for losses based on changes in contingent liabilities and adjustments for the net recovery value of closed banks in receivership.

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submit their Call Reports. This survey was conducted in early November, approximately two weeks prior to the deadline for these institutions to submit their September 30, 2002 Call Reports.

Given the size of the BIF contingent liability ($1.52 billion as of September 30, 2002), it is prudent to consider the possibility that some of the losses may not materialize. In such a case, some reserves would be reversed and the BIF balance would rise. Table 1 does not reflect this possibility, but it is discussed later in conjunction with projections for the BIF ratio.

Table 1
Potential Changes in Contingent Liabilities and Allowance for Losses (1)
June 30, 2002 to June 30, 2003

	Low Loss Estimate	**High Loss Estimate**
Contingent Liability for Future Failures	$200 million	$3,500 million
Allowance for Losses: Closed Banks (2)	($30 million)	$30 million
Potential Increase in Provision for Losses	$170 million	$3,530 million

Notes:
(1) Both projections reflect the information available as of September 30, 2002, regarding future economic conditions.
(2) Assumes a range of approximately –5 to +5 percent of the estimated net recovery value of bank resolutions, $600 million as of September 30, 2002.

The level of insurance losses will partly depend on the future condition of the economy and its effect on the banking industry. Staff has considered several future economic scenarios and believes a slow-growth economic recovery is most likely in the coming months. However, there is some risk that a shock to the economy, such as the outbreak of war, another corporate governance scandal, an oil price spike, or another terrorist attack, could lead consumers to reduce their spending, a mainstay of this recovery so far. Given these possibilities, a double dip recession cannot be ruled out.

The single most likely source of significant insurance losses related to the failure of FDIC-insured institutions in the near-term is subprime consumer lending. Some 128 FDIC-insured institutions with 6.5 percent of industry assets are currently identified as having subprime consumer or mortgage loans greater than 25 percent of Tier 1 capital. This group has a significant number of problem institutions and has contributed disproportionately to recent bank failures.

For purposes of determining adequacy of the current contingent liability, staff has conducted financial stress tests that incorporate a variety of economic scenarios on consumer specialty lenders, including subprime consumer lenders. Given the most likely economic scenario of a slow-growth recovery, staff believes the change in total provisions is more likely to resemble the low loss estimate than the high loss estimate in Table 1.

Interest Income and Unrealized Gains and Losses on Available-for-Sale (AFS) Securities. In order to estimate interest income for the year, staff has identified a likely range of potential interest rate movements over the next year. Given current interest rate levels and the economic outlook, scenarios for shifts in the level of interest rates of plus 150 bp or minus 50 bp for new investments appears reasonable. Table 2 projects low and high estimates for interest income and unrealized gains and losses on AFS securities. Because of the significant percentage of AFS securities held in the insurance fund portfolio at this time, when interest rates change, the magnitude of the change in market value of these securities dominates the effect of changes in interest income.

Table 2
Potential Changes in Interest Income and Unrealized Gains (Losses) on AFS Securities (1)
June 30, 2002 to June 30, 2003 ($ in millions)

	Higher Interest Rates and Failure Resolution Outlays (2)	**Lower Interest Rates and Failure Resolution Outlays**
Interest Income	1,623	1,649
Unrealized Gain (Loss) on AFS Securities (3)	(312)	171

Notes:

(1) Both projections reflect a shift in the level of interest rates of + 150 bp or – 50 bp from the level of interest rates as of the beginning of September 2002.

(2) Net estimated failure resolution outlays for the "Higher Failure Resolution Outlay" scenario equal $3.873 billion compared to $336 million for the "Lower Failure Resolution Outlay scenario. Hence, although the level of interest rates is assumed to be 200 bp higher in the "Higher Failure" scenario, overall interest revenue is actually lower than in the "Higher Failure" scenario due to a significantly smaller balance being invested during the period.

(3) Includes actual unrealized gains on AFS securities for the period July 1, 2002 through August 31, 2002 and projected gains/losses through June 30, 2003.

With a slow-growth economic recovery likely into the second half of next year, staff does not anticipate dramatic changes in bond market rates. If market rates hold relatively steady, the AFS securities' accounting treatment will have less of an impact on changes in the fund balance than it has in the recent past.

Projected Fund Balance. Table 3 summarizes the effects on the fund balance of the low and high estimates assumed for insurance losses, interest income, and unrealized gains and losses on AFS securities. The projection also assumes that the current assessment rate schedule will remain in effect through June 30, 2003.

Table 3
Projected Fund Balance (1)
($ in millions)

	Low Projected Balance	**High Projected Balance**
Assessments (2)	89	89
Interest Income (3)	1,623	1,649
Total Revenue	1,712	1,738
Operating Expenses	750	750
Provision for Losses	3,530	170
Total Expenses & Losses	4,280	920
Net Income	(2,568)	818
Unrealized Gain (Loss) on AFS Securities (3)	(312)	171
Comprehensive Income (Loss) (4)	(2,880)	989
Fund Balance (Unaudited) – 6/30/02	31,187	31,187
Projected Fund Balance – 6/30/03	28,307	32,176

Notes:

(1) Projected income and expense figures are for the twelve months ending June 30, 2003.

(2) Assumes that the current assessment rate schedule remains in effect through June 30, 2003.

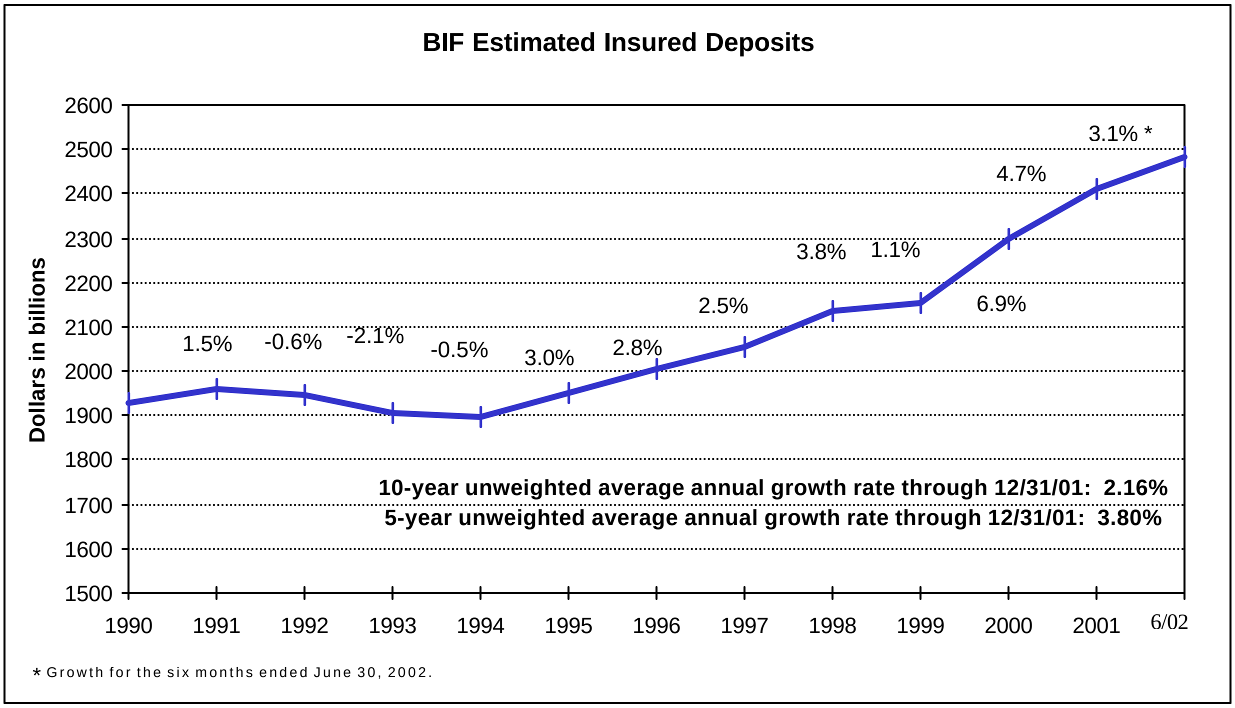
(3) Reflects a shift in the level of interest rates of + 150 bp or – 50 bp from the level of interest rates as of the beginning of September 2002. Because of the significant percentage of AFS securities held, the magnitude of the change in market value of these securities more than offsets the interest income changes. In the table, compare the relative change in Interest Income with the relative change in Unrealized Gain (Loss) on AFS Securities. See also Table 2, footnote (2) for an explanation regarding changes in interest revenue under these two scenarios.

(4) Comprehensive Income is used instead of Net Income due to the magnitude of the change in market value of AFS securities that occurs with fluctuations in interest rates. See note (3).

2. Insured Deposits

Since 1990, annual growth of BIF-insured deposits has been as high as 6.9 percent and as low as an annual shrinkage of 2.1 percent (Figure 1). After shrinking annually from 1992 through 1994, insured deposits grew between 2.5 percent and 3.8 percent from 1995 to 1998. After minimal growth in 1999 (1.1 percent), insured deposits grew by 6.9 percent in 2000 and 4.7 percent in 2001. During the six months ending June 30, 2002, BIF-insured deposits grew 3.1 percent. In the third quarter, preliminary results from our survey indicate that insured deposits grew by an additional 1.15 percent. Equity market declines, investor flight to safety and a change in the way banks report uninsured deposits[4] have factored into the recent strong growth in insured deposits.

Figure 1



[4] Beginning with the March 2002 Call Report, all banks were required to report their best estimate of uninsured deposits. Prior to March 2002, reporting an estimate for uninsured deposits was voluntary. If uninsured deposits were not reported then they were estimated by the FDIC using other Call Report items. Insured deposits are estimated by subtracting estimated uninsured deposits from total domestic deposits.

It takes approximately $20 billion in insured deposit growth to create a 1 basis point decline in the BIF reserve ratio, all other things held constant. Based upon the September 30, 2002, fund balance, it would take about $27.8 billion (1.12 percent) in insured deposit growth during the third quarter to reduce the fund to the Designated Reserve Ratio level as of September 30, 2002, all else being equal. Our preliminary estimate indicates that third-quarter deposit growth was close to this figure.

Considering the experience of the last five years, current market conditions, and a likely slow-growth economic recovery, the best judgment of the staff is that BIF-insured deposits are likely to experience a growth rate in the range of +2 percent to +6 percent between June 2002 and June 2003. The high end of this range reflects the potential for continued rapid deposit growth caused by stock market volatility, investor concern for safety and monetary expansion. Although interest rates are at historic lows, continued stock market volatility and investors' concerns for safety could mean that insured bank deposits will remain an attractive investment as we approach the upcoming assessment period. Therefore, the staff believes that reasonably strong growth in insured deposits is likely in the coming year, but growth should not exceed the highs experienced in recent years, which included the effects of new sweep activity and the aforementioned change in the way insured deposits are estimated from Call Reports.

3. BIF Reserve Ratio

Based on the projected BIF balance and the growth of the insured-deposit base, the staff projects the BIF reserve ratio to be within the range of 1.08 percent to 1.27 percent at June 30, 2003 (Table 4, next page). The low estimate, which produces a 18 bp decrease from the June 30, 2002 ratio, assumes a strong increase in the insured deposit base (+6 percent) and a higher interest rate scenario, resulting in a downward adjustment to the fund balance due to a reduction in the aggregate amount of unrealized gains on AFS securities (Table 3). The low fund estimate also incorporates the high loss estimate for insurance losses from possible near-term failures as projected by staff. The estimate reflects the staff's view of a reasonably possible adverse scenario. It is not intended to represent a "worst-case" scenario.

The high estimate produces a 1 bp increase in the reserve ratio at June 30, 2003. This estimate assumes slower growth (+2 percent) in the BIF-insured deposit base, the low loss estimate for insurance losses, and lower interest rates, resulting in an upward adjustment to the aggregate amount of unrealized gains on AFS securities.

Table 4
Projected BIF Reserve Ratios
($ in millions)

		June 30, 2002	
Fund Balance (Unaudited)		$31,187	
Estimated Insured Deposits		$2,482,836	
BIF Ratio		1.26%	
	Low Estimate (1) **June 30, 2003**		**High Estimate** (2) **June 30, 2003**
Projected Fund Balance	$28,307		$32,176
Estimated Insured Deposits	$2,631,806		$2,532,493
Estimated BIF Ratio	1.08%		1.27%

Notes:

(1) The low estimate refers to the scenario of higher interest rates (see note 3 in Table 2), a higher provision for losses ($3,530 million) and a higher insured deposit growth rate (+6 percent).

(2) The high estimate refers to the scenario of lower interest rates (see note 3, Table 2), a lower provision for losses ($170 million) and a lower insured deposit growth rate (+2 percent).

The high end of the projected range for the BIF ratio, 1.27 percent, may be understated because it does not reflect the possibility that some expected insurance losses may fail to materialize. Under these circumstances, some amount of the contingent liability would be reversed and the BIF reserve ratio would rise. Such a possibility has not been an important consideration in past Board decisions regarding premiums because the BIF contingent liability typically has been so small that any potential reversals would have been insignificant. With the BIF contingent liability at $1.52 billion as of September 30, 2002, this is no longer the case.

The contingent liability represents the staff's best estimate of BIF losses from anticipated bank failures. It reflects the staff's view of those potential losses that are "probable and estimable," as required by generally accepted accounting principles. However, actual results could differ from these estimates. If some losses do not materialize, the BIF reserve ratio would rise by approximately one basis point for every $250 million in loss reserves that are reversed.

As indicated in Table 4, if the low estimate were to be realized, the current rate schedule would not be sufficient to maintain the DRR through June 30, 2003. Staff believes it is most likely that the BIF reserve ratio will remain near 1.25 percent. Specifically, staff believes that it is more likely that actual insurance losses will resemble the low loss estimate than the high loss estimate (Table 1), that changes in market rates will be muted and will therefore have a minimal effect on interest income and changes in the value of AFS securities, and that deposit growth will be reasonably strong but will not exceed recent highs. Although even a moderate decline in the BIF reserve ratio will push it below the statutory target DRR of 1.25 percent, the Board would have two semiannual assessment periods to bring the ratio back to the target.

If the Board desires greater protection against the chance that the reserve ratio may fall below the DRR, an alternative approach would be to increase the effective rate schedule uniformly by a small amount. The FDIC would be required to refund any amounts not necessary to maintain the reserve ratio at the DRR to those institutions classified as "1A" for purposes of the FDIC's risk-related premium system.

Statutory Requirements Regarding the Assessment Rate Schedule

The Federal Deposit Insurance Act requires that the Board set semiannual assessment rates:

> [W]hen necessary, and only to the extent necessary (I) to maintain the reserve ratio of each deposit insurance fund at the designated reserve ratio; or (II) if the reserve ratio is less than the designated reserve ratio, to increase the reserve ratio to the designated reserve ratio ....[5]

Because the BIF reserve ratio is above 1.25 percent as of June 30, 2002, the Board can raise semiannual assessment rates for the first half of 2003 only pursuant to clause (I), to maintain the BIF at 1.25 percent. The statutory provisions that require the FDIC to return the ratio to 1.25 percent when the ratio falls below that target have not been activated.

If the reserve ratio falls below 1.25 percent, Section 7 of the FDI Act requires that the FDIC restore it to the designated reserve ratio within one year “after such rates are set”. The statute does not define when “rates are set” and legislative history provides no guidance on this issue. Based on a plain reading of the statute, it seems reasonable to use the date on which the Board acts to establish rates for the upcoming semiannual period. This would comport with the intent of this provision of Section 7 that the FDIC be given one year (i.e., two semiannual periods) to increase the reserve ratio to the designated reserve ratio without being required to impose the minimum assessment of 23 basis points.

Thus, for example, if final Call Report data show that the BIF reserve ratio fell below 1.25 percent as of September 30, 2002 (and remained below 1.25 percent as of December 31, 2002), the one-year period to re-establish the reserve ratio to 1.25 percent would begin in May 2003, when the Board sets the rates that become effective on July 1, 2003. The FDIC must do one of two things if the BIF reserve ratio used to set the July 1, 2003, rates is below 1.25 percent. The FDIC must set assessment rates to achieve the 1.25 percent by May 2004, which would allow two semiannual periods to re-establish the 1.25 percent—the periods beginning July 1, 2003, and January 1, 2004 (in addition to any amounts collected during the first half of 2003)—or the FDIC must establish a recapitalization schedule of 15 years or less and charge 23 basis point minimum average assessments.

[5] Section 7(b)(2)(A) of the FDI Act (12 U.S.C. § 1817(b)(2)(A)).

Statutory Requirements Regarding Refunds

According to the Deposit Insurance Funds Act of 1996 (Funds Act), if the reserve ratio at the end of an assessment period exceeds the DRR, the Board is required to refund the excess amount to certain insured depository institutions. However, refunds to depository institutions may not exceed the assessments they paid in that assessment period, and refunds may not be made to institutions that exhibit certain weaknesses (financial, operational, or compliance) or are not well-capitalized. The FDIC interprets the Funds Act as requiring refunds only to those institutions classified as "1A" for purposes of the FDIC's risk-related premium system.

Risk-Based Assessment System

Staff recommends retaining the current spread of 27 bp between the assessments paid by the best- and worst-rated institutions as well as the rate spreads between adjacent cells in the assessment rate matrix. The proposed assessment rate schedule appears in Table 5. The Board previously determined that the current rate spreads provide appropriate incentives for weaker institutions to improve their condition and for all institutions to avoid excessive risk-taking, consistent with the goals of risk-based assessments and existing statutory provisions. The current rate spreads also generally are consistent with the historical variation in bank failure rates across cells of the assessment rate matrix.

Table 5
Proposed Assessment Rate Schedule
First Semiannual Assessment Period of 2003
BIF-Insured Institutions

Capital Group	A	B	C
1. Well	0 bp	3 bp	17 bp
2. Adequate	3 bp	10 bp	24 bp
3. Under	10 bp	24 bp	27 bp

In setting assessment rates to achieve and maintain the reserve ratio at the target DRR, the Board is required to consider the effects of assessments on members' earnings and capital. The estimated annual revenue from the existing rate schedule is $89 million, which is $19 million more than the annual amount that was projected six months ago. In recommending that the Board maintain this schedule, the staff has considered the impact on bank earnings and capital and found no unwarranted adverse effects.

The Assessment Base Distribution and Matrix Migration

Table 6 summarizes the current distribution of institutions across the assessment matrix.

Table 6

BIF Assessment Base Distribution (1)

Assessable Deposits as of June 30, 2002

Supervisory Subgroup and Capital Groups in Effect July 1, 2002

Capital Group		**A**		**B**		**C**	
1. Well	Number	7,542	91.7%	433	5.3%	90	1.1%
	Base ($billion)	3,470.8	95.6%	109.5	3.0%	22.6	0.6%
2. Adequate	Number	125	1.5%	13	0.2%	13	0.2%
	Base ($billion)	23.4	0.6%	1.2	0.0%	2.3	0.1%
3. Under	Number	3	0.0%	0	0.0%	7	0.1%
	Base ($billion)	0.5	0.0%	0.0	0.0%	1.3	0.0%

Estimated annual assessment revenue	$89 million
Assessment Base	$3,631.7 billion
Average annual assessment rate (bp)	0.25 basis points

Notes:

(1) "Number" reflects the number of BIF members, including BIF-Oakar institutions; "Base" reflects all BIF-assessable deposits.

With 98.5 percent of the number of institutions and 99.2 percent of the assessment base in the three lowest assessment risk classifications of "1A," "1B," and "2A," as of July 1, 2002, the current distribution in the rate matrix reflects little fundamental difference from the previous semiannual assessment period. The current distribution reflects some shrinkage in the best-rated premium category. Since the previous assessment period, 138 institutions migrated into the "1A" risk classification (Table 7), and 222 institutions migrated out of the "1A" risk classification. Only 684 institutions are classified outside of the best risk classification.

Overall, for all BIF-insured institutions, the supervisory subgroup component of the risk classification was upgraded since the previous period for 87 institutions with an assessment base of $16.2 billion and was downgraded for 187 institutions with an assessment base of $91.0 billion.

Table 7
BIF Migration To and From Assessment Risk Classification "1A"

Institutions entering "1A"	Number	Base ($billion)
Due to capital group reclassification only	65	16.0
Due to supervisory subgroup reclassification only	73	14.9
Due to both	0	0.0
Total	138	30.9
Institutions leaving "1A"	Number	Base ($billion)
Due to capital group reclassification only	70	11.2
Due to supervisory subgroup reclassification only	147	84.5
Due to both	5	1.5
Total	222	97.2

Notes:

Reflects BIF-insured institutions that moved in and out of assessment risk classification "1A" from the first semiannual assessment period of 2002 to the second semiannual assessment period of 2002. The numbers only include institutions that were rated in both periods.

Other Issues

Refunds for second semiannual period of 2002. Since BIF-insured institutions classified as "1A" currently pay no assessments to the BIF under the proposed rate schedule they are ineligible to receive any refund for the second semiannual period of 2002.

FICO Assessment. The Funds Act separates the Financing Corporation (FICO) assessment from the FDIC assessment, so that the amount assessed on individual institutions by the FICO is in addition to the amount paid according to the BIF rate schedule. All institutions are assessed the same rate by FICO, as provided for in the Funds Act, and the FICO rate is updated quarterly. The FICO rate for the first quarterly payment in 2003 will be determined using September 30, 2002 Call Report and Thrift Financial Report data.

Staff Contacts

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Attachment 1

November 8, 2002

MEMORANDUM TO: Frederick S. Carns, Jr.
Deputy Director,
Division of Insurance and Research

FROM: Donald E. Inscoe
Associate Director, Statistics Branch,
Division of Insurance and Research

SUBJECT: BIF-Insured Deposit Growth and Reserve Ratio
(Preliminary Data)

Insured deposit growth is estimated from data reported on bank Call Reports and savings association Thrift Financial Reports each quarter. These data are used to calculate reserve ratios for the insurance funds by dividing each fund's balance by the estimated amount of deposits insured by the fund.

At the end of the second quarter, the Bank Insurance Fund (BIF) reserve ratio stood at 1.26 percent, just above its target Designated Reserve Ratio (DRR), currently 1.25 percent. On September 30, 2002, the unaudited BIF balance was $31.383 billion. In order to provide more current information, we have developed a preliminary estimate of deposits insured by the Bank Insurance Fund as of that date. This estimate should be regarded as preliminary, as some of the data are likely to be revised during the data validation process. A description of the steps taken to estimate BIF-insured deposits for September 30, 2002 is provided below. Based on currently available information, we estimate that BIF-insured deposits amounted to $2.511 trillion at the end of the third quarter. Accordingly, the BIF reserve ratio stood at 1.25 percent on September 30, 2002, when calculated using this preliminary estimate of BIF-insured deposits[6].

The preliminary number represents our best and most reasonable estimate based on the information we have now. This preliminary BIF reserve ratio estimate is subject to revision as discussed below.

We have taken the following steps to provide a timelier estimate:

- Obtained data (telephone survey) from 12 large banks that had not filed their September 30, 2002 Call Report by October 31, 2002. These banks with multiple foreign offices are among those banks that are not required to file their reports until November 14, 2002. Collectively, they held an estimated $586 billion of insured deposits including Oakar deposits insured by the Savings Association Insurance Fund (SAIF).

[6] This result is determined by dividing the BIF fund (unaudited) as of September 30, 2002 by the preliminary estimate of BIF-insured deposits on that same date ($31.383 billion / $2,511.395 billion = 1.250 percent).

- Obtained early Thrift Financial Report (TFR) data from the Office of Thrift Supervision (OTS) to determine the amount of BIF deposits held by savings associations. As of June 30, 2002, 38 BIF-member institutions supervised by the OTS held an estimated $46.8 billion in BIF-insured deposits.

- Made certain "Oakar" adjustments to allocate deposits between the two insurance funds for those institutions that have deposits insured by both funds. The adjustments were based on the proportions of these deposits that existed on June 30, 2002. On that date, 12.6 percent of insured deposits held by BIF members were attributed to the SAIF and 15 percent of insured deposits held by SAIF members were attributed to the BIF. These proportions were applied to the estimated insured deposits for September 30, so that Oakar adjustments reflect growth in insured deposits during the third quarter.

- Used previously reported (June 30) figures for a group of institutions for which we did not have third quarter data. These included a few smaller institutions that are not required to submit their Call Reports until November 14, and other institutions that were not on FDIC's (or in the case of savings associations, OTS's) processing files. As of June 30, 2002, together these institutions held an estimated $4.8 billion in insured deposits.

- Used previously reported figures from the June 30, 2002 Call Reports for the amounts of BIF-insured deposits held in bank branches located in U.S. territories and by insured U.S. branches of foreign banks. These amounts were $4.6 billion and $1.2 billion, respectively.

- Compared third quarter deposit data to the previous quarter to validate any unusual changes that could have a significant impact on the BIF reserve ratio calculation. Call Report and TFR edits will not be completed until late November 2002.

A final insured deposit estimate that reflects all reports will not be available until early December. It has been our experience that revisions of individual institutions' Oakar adjustments and amendments to data reported on Call Reports and Thrift Financial Reports can cause the estimate and the reserve ratio to change.