FDIC

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

Financial Institution Letter
FIL-8-2011
February 9, 2011

ASSESSMENTS

Final Rule

Summary: On February 7, 2011, the FDIC Board of Directors adopted the attached final rule, which redefines the deposit insurance assessment base as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank); makes changes to assessment rates; implements Dodd-Frank's Deposit Insurance Fund (DIF) dividend provisions; and revises the risk-based assessment system for all large insured depository institutions (IDIs), generally, those institutions with at least $10 billion in total assets. Nearly all of the 7,600-plus institutions with assets less than $10 billion will pay smaller assessments as a result of this final rule.

Distribution:
All FDIC-Insured Institutions

Suggested Routing:
Chief Executive Officer
President
Chief Financial Officer

Related Topics:
FDIC Regulations Governing the Assessment Process, 12 CFR Part 327

Attachment:
Final Rule-PDF (PDF Help)

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Highlights:

The final rule:

- Redefines the deposit insurance assessment base as average consolidated total assets minus average tangible equity;
- Makes generally conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates;
- Creates a depository institution debt adjustment;
- Eliminates the secured liability adjustment; and
- Adopts a new assessment rate schedule effective April 1, 2011, and, in lieu of dividends, other rate schedules when the reserve ratio reaches certain levels.

For all large IDIs, the final rule:

- Eliminates risk categories and the use of long-term debt issuer ratings when calculating the initial base assessment rates for large IDIs; and
- Combines CAMELS ratings and financial measures into two scorecards—one for most large IDIs and another for the remaining highly complex IDIs—to calculate assessment rates.

Assessment rates:

- Assessment rate calculators are available to enable IDIs to calculate assessment rates under the final rule. The calculators are available at: http://www.fdic.gov/deposit/insurance/future_calc.html.

Final Rule: Deposit Insurance Assessment Base, Assessment Rate Adjustments, Dividends, Assessment Rates, and Large Bank Pricing Methodology

The FDIC adopted the attached final rule relating to the deposit insurance assessment base, assessment rate adjustments, deposit insurance assessment rates, dividends, and large bank pricing methodology. Many of the changes were made as a result of provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) signed into law on July 21, 2010. A brief summary of the major provisions of the final rule follows. Except for the future assessment rate schedules, all changes go into effect April 1, 2011.

<u>Deposit Insurance Assessment Base</u>

- The base for deposit insurance assessment purposes is defined as average consolidated total assets during the assessment period less average tangible equity capital during the assessment period.

- Average consolidated total assets are defined in the schedule of quarterly averages in the Consolidated Reports of Condition and Income (Call Reports), using a daily averaging method.

    - Banks with less than $1 billion in assets (other than newly insured banks) may report average *weekly* assets; these banks may opt to report daily averages on a permanent basis.

- Tangible equity capital is defined as Tier 1 capital and will be calculated monthly or, if the IDI has less than $1 billion in assets, on an end-of-quarter basis.

- Institutions that are parents of other insured institutions will report separately from subsidiary depository institutions.

- Banker's banks and custodial banks may deduct low risk, liquid assets from their assessment base.

    - A banker's bank for purposes of calculating deposit insurance assessments is defined as that term is used in 12 U.S.C. 24.

        - Funds resulting from government capital infusion programs, FDIC stock ownership, or employee compensation plan stock ownership do not disqualify a bank from being a banker's bank.

        - An institution that meets the definition of banker's bank is required to certify to that effect each quarter on its Call Report or Thrift Financial Report (TFR), or any successor report.

        - The assessment base for a banker's bank excludes the average amount of reserve balances passed through to the Federal Reserve, the average reserve balances held at the Federal Reserve for its own account (including balances due from the Federal Reserve), and the average amount of the institution's federal funds sold, but in no case can the amount excluded exceed the sum of the bank's average amount of total deposits of commercial banks and other depository institutions in the United States and the average amount of its federal funds purchased.

    - A custodial bank for purposes of calculating deposit insurance assessments is defined in terms of total fiduciary and custody and safekeeping assets and revenues.

        - The assessment base for a custodial bank excludes all 0 percent Basel risk-weighted assets and 50 percent of 20 percent risk-weighted assets not to exceed the total transaction account deposits linked to custody and safekeeping and fiduciary assets.

<u>Assessment Rate Adjustments</u>

- *Unsecured debt adjustment*. All institutions, except new institutions and insured branches of foreign banks, are potentially subject to a reduction in assessment rates for unsecured debt.

    - The unsecured debt adjustment equals 40 basis points plus the initial base assessment rate.

    - The unsecured debt adjustment is capped at the lesser of 5 basis points or 50 percent of the IDI's initial base assessment rate.

    - Unsecured debt no longer includes Tier 1 capital.

- *Brokered deposit adjustment*. All small IDIs in Risk Categories II, III, and IV, and all large IDIs and highly complex IDIs that are less than well capitalized or have a CAMELS composite rating of 3, 4, or 5, are potentially subject to an increase in assessment rates for brokered deposits. For purposes of the brokered deposit adjustment, brokered deposits include *all* brokered deposits.

    - The brokered deposit adjustment is limited to those IDIs in which the ratio of brokered deposits to domestic deposits is greater than 10 percent.

    - The brokered deposit adjustment is calculated by multiplying 25 basis points by the ratio of the difference between an IDI's brokered deposits and 10 percent of its deposits to its assessment base.

- The maximum brokered deposit adjustment is 10 basis points.

- *Depository institution debt adjustment*. All IDIs are potentially subject to an increase in assessment rates for unsecured debt held that is issued by another IDI.
  - The depository institution debt adjustment equals 50 basis points of each dollar of long-term, unsecured debt held as an asset by an IDI when that debt was issued by another IDI, to the extent that all such debt exceeds 3 percent of the IDI's Tier 1 capital.

<u>Assessment Rates and Dividends</u>

- The FDIC adopted a new rate schedule effective April 1, 2011.

- The FDIC suspended dividends indefinitely; however, in lieu of dividends, and pursuant to its authority to set risk-based assessments, the FDIC adopted progressively lower assessment rate schedules that will take effect when the reserve ratio exceeds 1.15 percent, 2 percent, and 2.5 percent.

- The following are the rate schedules adopted by the Board:

Initial and Total Base Assessment Rates*
(effective April 1, 2011)

	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 depository institution debt adjustment.
**The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus for example, an insured depository institution with an initial base assessment rate of 5 basis points will have a maximum unsecured debt adjustment of 2.5 basis points and cannot have a total base assessment rate lower than 2.5 basis points.

Initial and Total Base Assessment Rates*
Once the Reserve Ratio Reaches 1.15 Percent and the Reserve Ratio for the Immediately Prior Assessment Period Is Less Than 2 Percent

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and Highly Complex Institutions
Initial base assessment rate	3–7	12	19	30	3–30
Unsecured debt adjustment**	(3.5)–0	(5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment	……	0–10	0–10	0–10	0–10
TOTAL BASE ASSESSMENT RATE	1.5–7	7-22	14-29	25-40	1.5–40

* Total base assessment rates do not include the depository institution debt adjustment.
**The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 3 basis points will have a maximum unsecured debt adjustment of 1.5 basis points and cannot have a total base assessment rate lower than 1.5 basis points.

Initial and Total Base Assessment Rates*
If the Reserve Ratio for Prior Assessment Period Is Equal To Or Greater Than 2 Percent and Less Than 2.5 Percent

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and Highly Complex Institutions
Initial base assessment rate	2–6	10	17	28	2–28
Unsecured debt adjustment**	(3)–0	(5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment	……	0–10	0–10	0–10	0–10
TOTAL BASE ASSESSMENT RATE	1–6	5-20	12-27	23-38	1–38

* Total base assessment rates do not include the depository institution debt adjustment.
** The unsecured debt adjustment could not exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial assessment rate of 2 basis points will have a maximum unsecured debt adjustment of 1 basis point and could not have a total base assessment rate lower than 1 basis point.

Initial and Total Base Assessment Rates*
If the Reserve Ratio For the Prior Assessment Period is Equal to or Greater than 2.5 Percent

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and Highly Complex Institutions
Initial base assessment rate	1–5	9	15	25	1–25
Unsecured debt adjustment**	(2.5)–0	(4.5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment	……	0–10	0–10	0–10	0–10
TOTAL BASE ASSESSMENT RATE	0.5–5	4.5-19	10–25	20-35	0.5–35

* Total base assessment rates do not include the depository institution debt adjustment.
** The unsecured debt adjustment could not exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial assessment rate of 1 basis point will have a maximum unsecured debt adjustment of 0.5 basis points and could not have a total base assessment rate lower than 0.5 basis points.

<u>Large Bank Pricing</u>

- Risk categories and the use of long-term debt issuer ratings for large IDIs and large IDIs that are structurally and operationally complex or that pose unique challenges and risk in the case of failure (highly complex IDIs) have been eliminated.

- A large IDI will continue to be defined as it currently is (generally, an IDI with at least $10 billion in total assets).

- In general, a highly complex IDI will be an IDI (other than a credit card bank) with more than $50 billion in total assets that is controlled by a parent or intermediate parent company with more than $500 billion in total assets or a processing bank or trust company with at least $10 billion in total assets.

- *Scorecards*. The FDIC will combine CAMELS ratings and certain financial measures into two scorecards—one for most large IDIs and another for the remaining large, highly complex IDIs.

  - Each scorecard assesses risk measures to produce two scores—a performance score and a loss severity score—that will be combined and converted to an initial assessment rate.

Performance Score. The performance score measures an IDI's financial performance and its ability to withstand stress.

Loss Severity Score. The loss severity score quantifies the relative magnitude of potential losses to the FDIC in the event of an IDI's failure.

Total Score. Once the performance and loss severity scores are calculated, these scores will be converted to a total score.

  - The scorecards that will be used for large IDIs and highly complex IDIs are shown in the tables below.

- *Large bank adjustment*. The FDIC will have the ability to adjust a large IDI's (or highly complex IDI's) total score by a maximum of 15 points, up or down, based upon significant risk factors that are not captured in the scorecard. The FDIC will use a process similar to the current large bank adjustment to determine the amount of any adjustments.

  - The FDIC will seek comment on updated guidelines on the large bank adjustment process. The FDIC will not adjust assessment rates until the updated guidelines are approved by the FDIC Board of Directors.

- *Initial base assessment rate*. A large IDI (or highly complex IDI) with a total score of 30 or less will pay the minimum base assessment rate, and an IDI with a total score of 90 or more will pay the maximum initial base assessment rate. For total scores between 30 and 90, initial base assessment rates will rise at an increasing rate as the total score increases.

Scorecard for Large Institutions

	Scorecard Measures and Components	Measure Weights	Component Weights
P	Performance Score		
P.1	*Weighted Average CAMELS Rating*	100%	*30%*
P.2	*Ability to Withstand Asset-Related Stress:*		*50%*
	Tier 1 Leverage Ratio	10%	
	Concentration Measure	35%	
	Core Earnings/Average Quarter-End Total Assets*	20%	
	Credit Quality Measure	35%	
P.3	*Ability to Withstand Funding-Related Stress:*		*20%*
	Core Deposits/Total Liabilities	60%	
	Balance Sheet Liquidity Ratio	40%	
L	Loss Severity Score		
L.1	*Loss Severity Measure*		*100%*

* Average of five quarter-end total assets (most recent and four prior quarters)

Scorecard for Highly Complex Institutions

	Measures and Components	Measure Weights	Component Weights
P	Performance Score		
P.1	*Weighted Average CAMELS Rating*	100%	*30%*
P.2	*Ability to Withstand Asset-Related Stress:*		*50%*
	Tier 1 Leverage Ratio	10%	
	Concentration Measure	35%	
	Core Earnings/Average Quarter-End Total Assets	20%	
	Credit Quality Measure and Market Risk Measure	35%	
P.3	*Ability to Withstand Funding-Related Stress:*		*20%*
	Core Deposits/Total Liabilities	50%	
	Balance Sheet Liquidity Ratio	30%	
	Average Short-Term Funding/Average Total Assets	20%	
L	Loss Severity Score		
L.1	Loss Severity Measure		*100%*