FDIC

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

Financial Institution Letter
FIL-2-2006
January 10, 2006

PROPOSAL TO MODERNIZE LARGE-BANK DEPOSIT INSURANCE DETERMINATIONS

Comments Sought on Advance Notice of Proposed Rulemaking

Summary: The FDIC is seeking comment on whether the largest insured depository institutions should be required to modify their deposit systems so that the FDIC may calculate deposit insurance coverage quickly in the event of a failure of one of these institutions. The advance notice of proposed rulemaking (ANPR) is attached. Comments are due by March 13, 2006.

Distribution:
All Insured Depository Institutions

Suggested Routing:
Chief Executive Officer
Chief Operations Officer

Related Topics:
Deposit Insurance Coverage
12 C.F.R. Part 330

Attachment:
Advance Notice of Proposed Rulemaking

Contact:
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Note:
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2006/index.html.

To receive FILs electronically, please visit http://www.fdic.gov/about/subscriptions/fil.html.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center (1-877-275-3342 or 202-416-6940).

Highlights:

- The FDIC is modernizing its current business processes and procedures for determining deposit insurance coverage in the event of a failure of one of the largest insured depository institutions (i.e., the 145 institutions with more than 250,000 deposit accounts and more than $2 billion in domestic deposits).
- As part of this initiative, the FDIC has published the attached advance notice of proposed rulemaking seeking comment on three options, each requiring the largest institutions to modify their deposit systems so that the FDIC may calculate deposit insurance coverage quickly in the event of failure.
- Comments on the ANPR must be submitted by March 13, 2006.

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PROPOSAL TO MODERNIZE LARGE-BANK DEPOSIT INSURANCE DETERMINATIONS
Comments Sought on Advance Notice of Proposed Rulemaking

The Federal Deposit Insurance Corporation (FDIC) has issued the attached advance notice of proposed rulemaking (ANPR) seeking comment on whether the largest insured depository institutions should be required to modify their deposit systems so that the FDIC may calculate deposit insurance coverage quickly in the event of failure. As currently structured, this proposal would apply only to insured depository institutions with more than 250,000 deposit accounts and more than $2 billion in domestic deposits. Presently, there are 145 such insured institutions.

Upon the failure of an insured depository institution, the FDIC applies the $100,000 insurance limit by aggregating accounts owned by the same depositor in the same ownership category. Examples of ownership categories are single accounts, joint accounts and revocable trust accounts. In determining the identities of depositors and the ownership categories of accounts, the FDIC relies upon the account records, including computer records, of the failed institution. Historically, in paying deposit insurance, the FDIC has made insured funds available to most depositors by the next business day following the institution's failure (usually the Monday following a Friday closing).

The ability of the FDIC to rapidly determine the insured status of deposit accounts is essential in resolving failed institutions in the most cost-effective and least disruptive fashion. The FDIC periodically updates the deposit claims process. In response to the growth of large institutions and consolidation in the banking industry, the FDIC is exploring new methods to modernize how it identifies insured deposits in the event of a large-bank failure.

Through the ANPR, the FDIC is seeking comment on three options:

- **Option 1** would require the institution to install on its deposit system a capability that, in the event of failure, would place a temporary hold on a portion of the balances of large deposit accounts. The percentage hold amount would be determined by the FDIC at the time of failure, depending mainly on estimated losses to uninsured depositors. These holds would be placed immediately prior to the institution's reopening for business as a "bridge bank," generally expected to be the next business day. The institution also would need to be able to automatically remove these holds and debit the account, if necessary, depending on the results of the FDIC's insurance determination. The insurance determination would be facilitated by certain depositor data (such as name, address, and tax identification number) maintained by the institution in a standard format. The data would include a unique identifier for each depositor and the insurance ownership category of each account.

- **Option 2** would be similar to Option 1 except that the standard data set would include only information that institutions currently possess. This option would not require institutions to create a unique identifier for each depositor or to classify each account by ownership category.

- **Option 3** would require the largest 10 or 20 insured institutions (in terms of the number of deposit accounts) to know the insurance status of their depositors and to deduct expected losses to uninsured depositors in the event of failure.

Comments on these options must be submitted on or before March 13, 2006.

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