FDIC

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

Financial Institution Letter
FIL-46-2006
May 18, 2006

DEPOSIT INSURANCE ASSESSMENTS

Proposed Rules on Credits, Dividends, and Procedural and Operational Changes to Assessment Regulations

Summary: The FDIC Board of Directors is seeking comment on the attached three proposed rules governing deposit insurance assessments under the Deposit Insurance Reform Act of 2005. The proposed rules would implement a one-time assessment credit, dividends, and procedural and operational changes to the assessment regulations. The Reform Act requires the FDIC to prescribe the credit and dividend regulations by November 5, 2006. Comments on the three proposed rules are due by July 17, 2006.

Distribution:
All FDIC-Insured Institutions

Suggested Routing:
Chief Executive Officer
President
Chief Financial Officer

Related Topics:
FDIC Assessments Regulations
12 C.F.R. 327

Attachments:
Proposed Rules

Contact:
Munsell W. St.Clair, Senior Policy Analyst, Division of Insurance and Research, on (202) 898-8967

Note:
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Highlights:

- *One-Time Assessment Credit*: The Reform Act mandates a one-time assessment credit of approximately $4.7 billion to be allocated to each "eligible insured depository institution" or its "successor" to acknowledge contributions by institutions to build up the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The first proposed rule would define "successor" as the resulting institution in a merger or consolidation involving an institution that was eligible for the one-time credit. The proposed rule also seeks comment on alternative definitions of successor. The FDIC has developed a Web-based search tool, accessible through www.fdic.gov/deposit/insurance/reform.html, which allows an institution to find its preliminary estimated one-time assessment credit amount based on the notice of proposed rulemaking.

- *Dividends*: The second proposed rule would establish a two-year interim rule for the payment of dividends from the Deposit Insurance Fund, the fund created on March 31, 2006, through the merger of the BIF and the SAIF.

- *Procedural and Operational Changes (Part 327 of FDIC's Rules and Regulations)*: The Reform Act has removed longstanding restraints on the deposit insurance assessment system and granted the FDIC discretion to revamp and improve the manner in which assessments are determined and collected from insured depository institutions. The third proposed rule would implement several improvements.

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One-Time Assessment Credit

The first proposed rule would implement the one-time assessment credit of approximately $4.7 billion, which must be distributed among "eligible insured depository institutions" and their successors. The formula for distribution is the assessment base of the institution as of December 31, 1996, as compared to the combined aggregate assessment base of all eligible institutions, taking into account other factors the FDIC's Board of Directors may deem appropriate. The statute defines an "eligible insured depository institution" as one that was in existence on December 31, 1996, and had paid a deposit insurance assessment prior to that date. The FDIC is charged with defining "successor" for these purposes.

The FDIC proposes to rely on the 1996 assessment base figures contained in its official systems of records; define "successor" as the resulting institution in a merger or consolidation, while seeking comment on alternative definitions; automatically apply each institution's credit against future assessments to the maximum extent permissible under the law; provide an appeals process for administrative challenges to credit amounts that culminates in review by the FDIC's Assessment Appeals Committee; and provide procedures to allow institutions to transfer credits.

Institutions are encouraged to find their preliminary estimated one-time assessment credit amount based on the notice of proposed rulemaking through the FDIC's Web-based search tool, accessible through www.fdic.gov/deposit/insurance/reform.html.

Dividends

The FDIC's proposed rule on dividends would establish a two-year interim rule for the payment of dividends from the Deposit Insurance Fund, the fund created on March 31, 2006, through the merger of the Bank Insurance Fund and the Savings Association Insurance Fund. However, the prospect of a dividend payment while the interim rule would be in effect appears unlikely. The FDIC will undertake a more comprehensive rulemaking for dividends during the life of the interim rule.

Part 327 Procedural and Operational Changes

Because the Reform Act removed some longstanding restraints on the deposit insurance assessment system and gave the FDIC discretion to improve the determination and collection of assessments, the FDIC is proposing several improvements to the system:

- Assessment collection would occur after each quarter ends, allowing for consideration of more current supervisory information and capital data.

- Institutions would be required to determine their assessment bases using average daily deposit balances (although existing institutions with less than $300 million in assets could elect to be grandfathered), and the float deduction used to determine the assessment base would be eliminated.

- Rules governing unpaid assessments of institutions that go out of business would be simplified; newly insured institutions would be assessed for the assessment period in which they become insured; prepayment and double payment options would be eliminated; institutions would have 90 days from each quarterly certified statement invoice to file requests for review and requests for revision; and the rules governing quarterly certified statement invoices would be adjusted for a quarterly assessment system and for a three-year record retention period rather than the present five-year period.

Other Deposit Insurance Reform Rulemakings

The Reform Act also requires the FDIC to prescribe rules on the designated reserve ratio, changes to deposit insurance coverage, risk-based assessments, and the insurance logo. An interim final rule on deposit insurance coverage was published on March 23, 2006 (see FIL-27-2006, dated March 28, 2006). The FDIC expects to propose additional rulemakings in June 2006.

Arthur J. Murton
Director
Division of Insurance and Research