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

Financial Institution Letter
FIL-19-2007
February 27, 2007

DEPOSIT INSURANCE ASSESSMENTS

Proposed Assessment Rate Adjustment Guidelines for Large Institutions and Foreign Branches in Risk Category I

Summary: The FDIC is seeking comment on the attached proposed guidelines for determining how adjustments of up to 0.50 basis points would be made to the quarterly assessment rates of insured institutions defined as large (generally over $10 billion) Risk Category I institutions, and insured foreign branches in Risk Category I, according to the Final Assessments Rule (71 FR 69282, Nov. 30, 2006). These guidelines are intended to further clarify the analytical processes and the controls applied to these processes in making assessment rate adjustments. Comments on these proposed guidelines are due by March 23, 2007.

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 Guidelines

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Note:
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Highlights:

The FDIC proposes a set of ten guidelines that would govern the process for determining when an assessment rate adjustment is appropriate and the magnitude of the adjustment. The proposal also lists and discusses the types of information that would be considered in making assessment rate adjustments, as well as controls over the analytical process to help ensure that any adjustments are reasonable and well supported.

- *Analytical Process:* The proposed analytical process involves comparisons of the risk rankings suggested by an institution's initial assessment rate with the risk rankings suggested by other risk measures.
- *Guidelines Governing the Analytical Process:* Six of the guidelines would govern the analytical process and are intended to provide the greatest degree of transparency possible in the FDIC's adjustment decisions.
- *Magnitude of Adjustments:* When material inconsistencies between initial assessment rates and other risk indicators are present, the FDIC proposes to perform additional analyses to determine the magnitude of adjustment, subject to the 0.50 basis point limitation, necessary to better align the assessment rate with that of other institutions with similar risk profiles.
- *Risk Information Sources:* Other risk measures that the FDIC proposes to consider during the analytical process include both broad-based or comprehensive risk measures and more focused risk measures.
- *Controls over the Analytical Process:* The FDIC proposes four additional guidelines that would ensure assessment rate adjustments are reasonable, well supported and based on all relevant information. As examples, the FDIC proposes to consult with an institution's primary federal regulator and state banking supervisor in advance of making an adjustment, and will also notify institutions in advance of implementing any upward adjustment in assessment rates.

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The FDIC is seeking comment on the attached proposed guidelines for determining how adjustments of up to 0.50 basis points would be made to the quarterly assessment rates of insured institutions defined as large Risk Category I institutions, and insured foreign branches in Risk Category I, according to the Final Assessments Rule (71 FR 69282, Nov. 30, 2006). These guidelines are intended to further clarify the analytical processes and the controls applied to these processes in making assessment rate adjustment determinations. Comments on these proposed guidelines are due by March 23, 2007.

Objective of Assessment Rate Adjustments

As indicated in the Final Assessments Rule, the initial assessment rates of large institutions in Risk Category I will be determined by a combination of supervisory ratings, long-term debt issuer ratings, and financial ratios for institutions that have no long-term debt issuer ratings. The Final Assessment Rule also indicated that FDIC may determine, in consultation with the primary federal regulator, whether limited adjustments to these initial assessment rates are warranted based upon consideration of additional risk information. Although the FDIC expects that such adjustments will be made relatively infrequently and for a limited number of institutions, adjustments may on occasion be necessary to preserve consistency in the orderings of risk indicated by these assessment rates, ensure fairness among all large institutions, and ensure that assessment rates take into account all available information that is relevant to the FDIC's risk-based assessment decision.

Purpose of the Proposed Guidelines

The Final Assessments Rule acknowledged the need to further clarify its processes for making assessment rate adjustments and indicated no adjustments would be made until these additional guidelines were approved by the FDIC's Board. The attached proposal contains a set of guidelines intended to provide transparency to the analytical process for determining whether assessment rate adjustments are warranted. The attached proposal also contains guidelines relating to controls over the assessment rate adjustment process, a listing of the types of comprehensive and focused risk measures used in the analytical process, and an illustrative example of the proposed analytical process.

<u>Overview of the Assessment Rate Adjustment Process</u>

- *Analytical Process:* The proposed analytical process involves comparisons of the risk rankings suggested by an institution's initial assessment rate with the risk rankings suggested by other risk measures. The purpose of these comparisons is to identify inconsistencies in the rank orderings between the initial assessment rate and other risk indicators.

- *Guidelines Governing the Analytical Process:* A number of guidelines would govern the analytical process to ensure the greatest degree of transparency possible in the FDIC's adjustment decisions. As examples, adjustment decisions would place more emphasis on comprehensive risk measures than on focused risk measures, would generally be made only when multiple risk factors support the need for the adjustment, and will take into account normal variations in financial performance measures by institutions with differing business focuses.

- *Magnitude of Adjustments:* When material inconsistencies between initial assessment rates and other risk indicators are present, the FDIC proposes to perform additional analyses to determine the magnitude of adjustment, subject to the 0.50 basis point limitation, necessary to better align the assessment rate with that of other institutions with similar risk profiles.

- *Risk Information Sources:* Other risk measures that the FDIC proposes to consider during the analytical process include both broad-based or comprehensive risk measures and more focused risk measures. Broad-based risk measures include the individual inputs into the initial assessment rate (supervisory ratings, long-term debt issuer ratings, and results of the financial ratio method used to determine assessment rates for large Risk Category I institutions without long-term debt issuer ratings), other comprehensive market measures such as subordinated debt spreads, and quantitative and qualitative measures of loss severity in the event of failure. Focused risk measures include financial performance measures and other market information.

- *Controls over the Analytical Process:* To ensure that assessment rate adjustments are reasonable, well supported and based on all relevant information, the FDIC proposes to consult with an institution's primary federal regulator and state banking supervisor in advance of making an adjustment. The FDIC would also notify institutions in advance of implementing any upward adjustment in assessment rates.

Institutions are encouraged to provide comment on all aspects of the proposed guidelines as well as comment on directed questions pertaining to whether and how the FDIC should evaluate various categories of information such as stress considerations, qualitative loss severity information, the potential availability of parent company and affiliate support, risk information developed from the implementation of proposed international capital standards, and the existence of supervisory orders that may be less directly related to an institution's safety and soundness.

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