



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

Financial Institution Letter
FIL-106-2008
October 20, 2008

DEPOSIT INSURANCE ASSESSMENTS

Proposed Rule on Assessments

Summary: The FDIC Board of Directors is seeking comment on the attached proposed rule, which would amend the system for risk-based assessments and change assessment rates. Comments on the proposed rule are due by November 17, 2008.

Distribution:
All FDIC-Insured Institutions

Suggested Routing:
Chief Executive Officer
President
Chief Financial Officer

Related Topics:
FDIC Operational Regulations Governing the Assessment Process, 12 CFR 327.1 to 327.8

Attachment:
Proposed Rule

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Note:
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Highlights:

- *Risk-Based Assessments for Risk Category I:* To determine initial base assessment rates, the FDIC proposes to: (1) introduce a new financial ratio into the financial ratios method applicable to most Risk Category I institutions to include brokered deposits above a threshold that are used to fund rapid asset growth; (2) for a large Risk Category I institution with long-term debt issuer ratings, combine weighted average CAMELS component ratings, the debt issuer ratings, and the financial ratios method assessment rate; and (3) use a new uniform amount and pricing multipliers for each method.
- *Adjustments to Assessment Rates:* The FDIC also proposes to introduce three adjustments that could be made to an institution's initial base assessment rate: (1) a potential decrease for long-term unsecured debt, including senior and subordinated debt and, for small institutions, a portion of Tier 1 capital; (2) a potential increase for secured liabilities above a threshold amount; and (3) for non-Risk Category I institutions, a potential increase for brokered deposits above a threshold amount.
- *Assessment Rates.* For the first quarter of 2009 only, the FDIC proposes raising the current rates uniformly by seven basis points. The FDIC proposes to establish new initial base assessment rates that will be subject to adjustment as described above effective April 1, 2009.
- *Rate Calculator.* The FDIC has developed an assessment rate calculator to enable any institution to determine assessment rates under the proposed rule and rates. The calculator is available at: <http://www.fdic.gov/deposit/insurance/initiative/index.html>.

Deposit Insurance Assessments Proposed Rule on Risk-Based Assessments

The FDIC Board of Directors is seeking comment on the attached proposed rule, which would amend the system for risk-based assessments and change assessment rates. Comments on the proposed rule are due by November 17, 2008.

Assessments

Small Risk Category I Institutions and Large Risk Category I Institutions with No Long-Term Debt Issuer Rating: The FDIC proposes to: (1) introduce a new financial ratio into the financial ratios method (applicable to most Risk Category I institutions) to include brokered deposits (those in excess of 10 percent of domestic deposits) that are used to fund rapid asset growth; and (2) revise the uniform amount and the pricing multipliers.

Large Risk Category I Institutions with Long-Term Debt Issuer Ratings: The FDIC proposes: (1) to determine the initial base assessment rate for a large Risk Category I institution with long-term debt issuer ratings using a combination of weighted average CAMELS component ratings, long-term debt issuer ratings, and the financial ratios method assessment rate, each equally weighted (the large bank method); and (2) to revise the uniform amount and the pricing multipliers.

Risk Category I Minimum, Maximum, and Range: The proposed new pricing multipliers and uniform amounts for the financial ratios method and the large bank method were derived such that, using June 30, 2008 Call Report and TFR data: (1) 25 percent of small institutions and 25 percent of large institutions in Risk Category I (other than institutions less than five years old) would have been charged the minimum initial base assessment rate; (2) 15 percent of small institutions and 15 percent of large institutions in Risk Category I (other than institutions less than five years old) would have been charged the maximum initial base assessment rate; and (3) the range between the minimum and maximum initial base assessment rates would be 4 basis points, up from 2 basis points under the current rule.

Adjustments to Assessment Rates: The FDIC also proposes to introduce three adjustments that could be made to an institution's initial base assessment rate: (1) a potential decrease of up to 2 basis points for long-term unsecured debt, including senior and subordinated debt and, for small institutions, a portion of Tier 1 capital; (2) a potential increase not to exceed 50 percent of an institution's assessment rate before the increase for secured liabilities in excess of 15 percent of domestic deposits; and (3) for non-Risk Category I institutions, a potential increase not to exceed 10 basis points for brokered deposits in excess of 10 percent of domestic deposits.

Assessment Rates. The FDIC proposes to establish new initial base assessment rates that will be subject to adjustment as described above, effective April 1, 2009. The proposed initial base assessment rates would be as follows:

Proposed Initial Base Assessment Rates

	Risk Category				
	I*		II	III	IV
	Minimum	Maximum			
Annual Rates (in basis points)	10	14	20	30	45

* Initial base rates that were not the minimum or maximum rate would vary between these rates.

After applying all possible adjustments, minimum and maximum total base assessment rates for each risk category would be as follows:

Proposed Total Base Assessment Rates*

	RISK CATEGORY I	RISK CATEGORY II	RISK CATEGORY III	RISK CATEGORY IV
Initial base assessment rate	10 - 14	20	30	45
Unsecured debt adjustment	-2 - 0	-2 - 0	-2 - 0	-2 - 0
Secured liability adjustment	0 - 7	0 - 10	0 - 15	0 - 22.5
Brokered deposit adjustment		0 - 10	0 - 10	0 - 10
Total base assessment rate	8 - 21.0	18 - 40.0	28 - 55.0	43 - 77.5

* All amounts for all risk categories are in basis points annually. Total base rates that were not the minimum or maximum rate would vary between these rates.

Assessment Rates for the First Quarter of 2009.

The FDIC proposes raising the current rates uniformly by 7 basis points for the assessment for the first quarter of 2009 only. Rates would be as follows:

Proposed Assessment Rates for the First Quarter of 2009

	Risk Category				
	I*		II	III	IV
	Minimum	Maximum			
Annual Rates (in basis points)	12	14	17	35	50

* Rates for institutions that did not pay the minimum or maximum rate would vary between these rates.

Rate Calculator: The FDIC has developed an assessment rate calculator to enable any institution to determine assessment rates under the proposed rule and rates. The calculator is available at: <http://www.fdic.gov/deposit/insurance/initiative/index.html>.

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