



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

Financial Institution Letter
FIL-65-2006
July 25, 2006

DEPOSIT INSURANCE ASSESSMENTS

Proposed Rules on Risk-Based Assessments, the Designated Reserve Ratio, and Assessment Penalties

Summary: The FDIC Board of Directors is seeking comment on the three attached proposed rules. The first proposed rule would create a new system for risk-based assessments. The second proposed rule would set the designated reserve ratio (DRR) at 1.25 percent. The third proposed rule would govern the penalties for failure to pay assessments. The Federal Deposit Insurance Reform Act of 2005 requires the FDIC to prescribe final regulations by November 5, 2006. Comments on the first two proposed rules are due by September 22, 2006; comments on the third rule are due by September 18, 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
FDIC Advertisement of Membership Regulations
12 C.F.R. 328

Attachments:

Proposed Rules

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Note:

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Highlights:

- *Risk-Based Assessments:* The FDIC proposes to: (1) create different risk differentiation frameworks for small and large institutions that are well capitalized and well managed; (2) establish a common risk differentiation framework for all other insured institutions; and (3) establish a base assessment rate schedule.
- *Rate Calculator:* The FDIC has developed two assessment rate calculators that will enable small and large institutions that are well capitalized and well managed to estimate assessment rates under the proposal. These calculators are available at: <http://www.fdic.gov/deposit/insurance/rule.html>.
- *Designated Reserve Ratio:* The FDIC proposes to set the designated reserve ratio (DRR) at 1.25 percent of estimated insured deposits.
- *Penalty for Failure to Pay Assessments:* The FDIC proposes to amend the rule concerning late assessment penalties to mirror the assessment penalty provisions of the Deposit Insurance Reform Act of 2005.

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Assessments

Risk Categories: The FDIC proposes to consolidate the existing nine assessment rate categories into four.

Small well-capitalized, well-managed institutions: The FDIC proposes to combine CAMELS component ratings with current financial ratios to determine assessment rates applicable to a small well-capitalized, well-managed institution.

Large well-capitalized, well-managed institutions: The FDIC proposes to combine CAMELS component ratings with long-term debt issuer ratings, and, for some large institutions, financial ratios to assign large well-capitalized, well-managed institutions to initial assessment rate subcategories. These initial assignments, however, might be modified to the next higher or lower assessment rate subcategory based upon a review of additional relevant information pertaining to an institution’s risk. The FDIC proposes to define a large institution as an institution that has \$10 billion or more in assets.

New well-capitalized, well-managed institutions: The FDIC proposes to assess all new (established within seven years of a particular assessment period) well-capitalized, well-managed institutions, regardless of size, at the maximum rate applicable to well-managed, well-capitalized institutions.

Base schedule of rates: The FDIC proposes to adopt a base schedule of rates. The actual rates that the FDIC may put into effect next year and in subsequent years could vary from the base schedule. The proposed base schedule of rates is as follows:

	Risk Category				
	I*		II	III	IV
	Minimum	Maximum			
Annual Rates (in basis points)	2	4	7	25	40

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

The FDIC proposes that it continue to be allowed, as it is under the present system, to adjust rates uniformly up to a maximum of five basis points higher or lower than the base rates without the necessity of further notice-and-comment rulemaking, provided that any single adjustment from one quarter to the next could not move rates more than five basis points.

Assessment rate calculator: Institutions are encouraged to download the small or large bank assessment rate calculator available at <http://www.fdic.gov/deposit/insurance/rule.html>. These calculators will enable well-capitalized, well-managed institutions to estimate assessment rates under the proposal.

Designated Reserve Ratio

The FDIC proposes to set the DRR at 1.25 percent of estimated insured deposits.

Penalty for Failure to Pay Assessments

The FDIC proposes to incorporate the Reform Act provisions governing penalties for failure to pay assessments into the existing penalty rule. The Reform Act generally provides that an insured depository institution that fails or refuses to pay an assessment shall be subject to a penalty of not more than 1 percent of the assessment due for each day the violation continues, with an exception if the failure to pay results from a dispute with the FDIC over the amount of the assessment and satisfactory security is deposited with the FDIC. A special rule covers assessment amounts of less than \$10,000, authorizing penalties up to \$100 per day. The FDIC is accorded discretion to compromise, modify or remit any penalty upon a finding that good cause prevented timely payment of the assessment. The proposed rule would mirror these Reform Act provisions.

Other Deposit Insurance Reform Rulemakings

The Reform Act also requires the FDIC to prescribe rules on the one-time assessment credit and dividends. The FDIC published proposed rules on credits and dividends, and a third proposed rule on procedural and operational changes to the assessment system, on May 9, 2006 (see FIL-46-2006, dated May 18, 2006). Comments on these rules are due August 16, 2006. On July 17, 2006, the FDIC published a proposed rule on the official FDIC sign and advertising of FDIC membership. Comments on that proposed rule are due by September 15, 2006 (see FIL-62-2006, dated July 17, 2006). An interim final rule on deposit insurance coverage was published on March 23, 2006 (see FIL-27-2006, dated March 28, 2006).

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