FDIC

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

Financial Institution Letter
FIL-77-2010
November 10, 2010

Assessments

Notice of Proposed Rulemaking

Summary: On November 9, 2010, the FDIC adopted the attached Notice of Proposed Rulemaking (NPR), which would revise the risk-based assessment system for all large insured depository institutions (IDIs), generally, those institutions with at least $10 billion in total assets. The proposed changes would be effective April 1, 2011. Comments on the NPR are due 45 days following publication of the NPR in the *Federal Register*.

Distribution:
All FDIC-Insured Institutions

Suggested Routing:
Chief Executive Officer
President
Chief Financial Officer

Related Topics:
FDIC Regulations Governing the Assessment Process, 12 CFR Part 327

Attachment:
Notice of Proposed Rulemaking:
http://www.fdic.gov/news/board/Nov9no8.pdf

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Note:
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Highlights:

- In April 2010 the FDIC issued a proposal that would revise the deposit insurance assessment system for large institutions. In light of the Dodd-Frank Wall Street Reform and Consumer Protection Act's amendments to the definition of an institution's deposit insurance assessment base, the FDIC is again soliciting comment before adopting a final rule on a new assessment system for large institutions.

- Risk categories and the use of long-term debt issuer ratings would be eliminated when calculating the initial base assessment rates for large IDIs.

- The proposed assessment system for large IDIs would combine CAMELS ratings and certain financial measures into two scorecards—one for most large IDIs and another for the remaining very large IDIs that are structurally and operationally complex or that pose unique challenges and risks in case of failure (highly complex IDIs).

- Both scorecards would use quantitative measures that are readily available and useful in predicting an IDI's long-term performance.

- Similar to the current system, the FDIC would retain the limited ability to adjust the total score of large IDIs based upon quantitative or qualitative measures not adequately captured in the scorecards.

- Assessment rate calculators are available to enable a large IDI or a highly complex IDI to estimate assessment rates under the proposed rule. The calculators are available at: http://www.fdic.gov/deposit/insurance/proposed_calc.html.

Notice of Proposed Rulemaking: Risk-Based Assessment System for Large Insured Depository Institutions

The FDIC would eliminate risk categories and the use of long-term debt issuer ratings for large IDIs and large IDIs that are structurally and operationally complex or that pose unique challenges and risk in the case of failure (highly complex IDIs). A large IDI would continue to be defined as it currently is (generally, an IDI with at least $10 billion in total assets). In general, a highly complex IDI would be an IDI (other than a credit card bank) with more than $50 billion in total assets that is controlled by a parent or intermediate parent company with more than $500 billion in total assets or a processing bank or trust company with at least $10 billion in total assets.

Scorecards

- The FDIC would combine CAMELS ratings and certain financial measures into two scorecards—one for most large IDIs and another for the remaining very large, highly complex IDIs.

- Each scorecard assesses certain risk measures to produce two scores—a performance score and a loss severity score—that would ultimately be combined and converted to an initial assessment rate.

  Performance Score. The performance score measures an IDI's financial performance and its ability to withstand stress.

  Loss Severity Score. The loss severity score quantifies the relative magnitude of potential losses to the FDIC in the event of the IDI's failure.

- The scorecards that would be used for large IDIs and highly complex IDIs are shown below.

Total Score

- Once the performance and loss severity scores were calculated, these scores would be converted to a total score, which could not be less than 30 or more than 90.

Large Bank Adjustment

- The FDIC would have the ability to adjust a large IDI's (or highly complex IDI's) total score by a maximum of 15 points, up or down, based upon significant risk

[1]

- The FDIC plans to seek comment on updated guidelines on the large bank adjustment process. The FDIC would not adjust assessment rates until the updated guidelines are approved by the FDIC Board of Directors.

Initial Base Assessment Rate

- A large IDI (or highly complex IDI) with a total score of 30 would pay the minimum base assessment rate, and an IDI with a total score of 90 would pay the maximum initial base assessment rate. For total scores between 30 and 90, initial base assessment rates would rise at an increasing rate as the total score increased.[2]

- The initial base assessment rate could be adjusted as discussed in the Assessment Base NPR.

Effective Date

- The scorecard method would be used to calculate assessment rates for large and highly complex IDIs beginning with the second quarter assessment period of 2011.

[1] 12 CFR 327.9(d)(4)(2010).
[2] Proposed initial base assessment rates are set out in the Assessment Base NPR, which was proposed concurrently with this proposal.

Scorecard for Large IDIs

	Scorecard Measures	Weights within Component	Component Weights
P	Performance Score		
P.1	*Weighted Average CAMELS Rating*	*100%*	*30%*
P.2	*Ability to Withstand Asset-Related Stress:*		*50%*
	Tier 1 Leverage Ratio	10%	
	Concentration Measure	35%	
	Core Earnings/Average Quarter-End Total Assets*	20%	
	Credit Quality Measure	35%	
P.3	*Ability to Withstand Funding-Related Stress*		*20%*
	Core Deposits/Total Liabilities	60%	
	Balance Sheet Liquidity Ratio	40%	
L	Loss Severity Score		
L.1	*Loss Severity*		*100%*
	Potential Losses/Total Domestic Deposits (loss severity measure)	75%	
	Noncore Funding/Total Liabilities	25%	

* Average of five quarter-end total assets (most recent and four prior quarters)

Scorecard for Highly Complex IDIs

	Scorecard Measures	Weights within Component	Component Weights
P	Performance Score		
P.1	*Weighted Average CAMELS Rating*	*100%*	*30%*
P.2	*Ability to Withstand Asset-Related Stress:*		*50%*
	Tier 1 Leverage Ratio	10%	
	Concentration Measure	35%	
	Core Earnings/Average Quarter-End Total Assets*	20%	
	Credit Quality Measure and Market Risk Measure	35%	
P.3	*Ability to Withstand Funding-Related Stress*		*20%*
	Core Deposits/Total Liabilities	50%	
	Balance Sheet Liquidity Ratio	30%	
	Average Short-Term Funding/Average Total Assets	20%	
L	Loss Severity Score		
L.1	*Loss Severity*		*100%*
	Potential Losses/Total Domestic Deposits (loss severity measure)	75%	
	Noncore Funding/Total Liabilities	25%	

*Average of five quarter-end total assets (most recent and four prior quarters)