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FDIC Approves Final Rule of Assessments, Dividends, Assessment Base and Large Bank Pricing

The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) on February 7 approved a final rule on Assessments, Dividends, Assessment Base and Large Bank Pricing. The rule, which is quite detailed and complicated, implements changes to the deposit insurance assessment system mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act and revises the assessment system applicable to large banks to eliminate reliance on debt issuer ratings and make it more forward-looking. Dodd-Frank required that the base on which deposit insurance assessments are charged be revised from one based on domestic deposits to one based on assets, and that the amount of assessments collected be revenue neutral as between the current system (based on liabilities) and the new system (based on assets). FDIC Chairman Sheila Bair said, "The rule should keep the overall amount collected from the industry very close to unchanged, although the amounts that individual institutions pay will be different."

The final regulation followed a series of FDIC proposed regulations dating back to April 2010, and the final rule encompasses all of these proposed rules. According to the FDIC, the new large bank pricing system will result in higher assessment rates for banks with high-risk asset concentrations, less-stable balance sheet liquidity, or potentially higher loss severity in the event of failure. Over the long term, large institutions that pose higher risk will pay higher assessments when they assume these risks rather than when conditions deteriorate. The final rule also retains the unsecured debt adjustment, which lowers an institution's assessment rate to recognize the buffer that long-term unsecured and subordinated debt provides the Deposit Insurance Fund (DIF). This adjustment is "recalibrated" in the final rule to ensure that the incentive for issuing this debt remains the same with the change to a larger assessment base. "In light of the interest rate environment and the assessment rate benefit we provide, I encourage banks to issue more long-term unsecured debt to lock in low rates and provide greater stability to their funding," Chairman Bair said. It remains to be seen whether and to what extent banks will add such debt to their balance sheets; recently, the emphasis has been on adding tangible capital.

At present, for deposit insurance assessment purposes, an insured depository institution is placed into one of four risk categories each quarter, determined primarily by the institution's capital levels and supervisory evaluation. The total base assessment rates that can be levied on banks range from 7 points for Risk Category I institutions to 77.5 points for Risk Category IV institutions. An institution's assessment is determined by multiplying its assessment rate by its assessment base. Its assessment base is, and has historically been, domestic deposits, with some

adjustments. Under the new asset-based rule, the total base assessment rates will range from 2.5 points to 45 points.

The FDIC, based on a series of assumptions, believes that approximately 84% of profitable institutions are projected to have a decrease in assessments in an amount between 0 and 10% of income. Another 14% of profitable institutions would have a reduction in assessments exceeding 10% of their income. "Only 91 institutions would have an increase in assessments, with all but 12 of them facing assessment increases between 0 and 10% of their income," according to the FDIC. Additionally, the FDIC believes that about 65% of unprofitable institutions are projected to have a decrease in assessments in an amount between 0 and 10% of their losses. Another 33% will have lower assessments in amounts exceeding 10% income. "Only 42 unprofitable banks will face assessment increases, all but 10 of them in amounts between 0 and 10% of losses," states the FDIC.

Additional rate schedules will go into effect when the DIF reserve ratio reaches various milestones. The final rule, except as specifically provided, will take effect for the quarter beginning April 1, and will be reflected in the June 30 fund balance and the invoices for assessments due September 30.

Read more.

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