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FDIC Adopts Final Rule to Amend How Small Banks are Assessed for Deposit Insurance

The Federal Deposit Insurance Corporation (FDIC) today adopted a final rule that amends how established small banks are assessed for deposit insurance. The final rule, which affects banks with less than $10 billion in assets that have been federally insured for at least five years, is intended to improve the risk-based deposit insurance assessment system applicable to a substantial number of the nation's banks.

The final rule updates the data and revises the methodology that the FDIC uses to determine risk-based assessments for these institutions to better reflect risks and to help ensure that banks that take on greater risks pay more for deposit insurance than their less-risky counterparts. The final rule uses a statistical model that estimates a bank's probability of failure within three years, using the following factors:

- Weighted Average CAMELS Component Rating
- Leverage Ratio
- Net Income before Taxes/Total Assets
- Nonperforming Loans and Leases/Gross Assets
- Other Real Estate Owned/Gross Assets
- Brokered Deposit Ratio
- One-Year Asset Growth
- Loan Mix Index

The first three measures are the same as, or very similar to, the measures currently used by the FDIC to determine risk-based assessments for established small banks. While the existing nonperforming assets/gross assets measure includes other real estate owned, the final rule uses other real estate owned/gross assets as a separate measure from nonperforming loans and leases/gross assets. The remaining final rule measures—the brokered deposit ratio, the one-year asset growth measure and the loan mix index—are new. In the final rule, the brokered deposit ratio and one-year asset growth measure replace the current adjusted brokered deposit ratio.

Brokered deposit ratio. The new brokered deposit ratio, defined as the ratio of brokered deposits to total assets, is applicable to all established banks. Under the brokered deposit ratio, brokered deposits in excess of 10 percent of total assets may increase assessment rates. For a bank that is well-capitalized and has a CAMELS composite rating of 1 or 2, reciprocal deposits will be deducted from brokered deposits. For a bank that is less than well-capitalized or has a CAMELS composite rating of 3, 4 or 5, however, reciprocal deposits will be included with other brokered deposits.

One-year asset growth measure. The new one-year asset growth measure increases an established small bank's assessment rate if it has had one-year asset growth greater than 10 percent.

Loan mix index. The loan mix index is a measure of the extent to which a bank's total assets include higher-risk categories of loans and uses historical industry-wide charge-off rates to identify loan types with higher risk, such as construction and development loans. The loan mix index value is determined by (1) dividing each category of loan in a bank's loan portfolio by the bank's total assets to determine the percentage of the bank's assets represented by that category of loan and (2) multiplying each percentage by that category of loan's historical weighted average industry-wide charge-off rate.

The final rule follows an initial proposed rule on small bank assessments issued in June 2015 and a revised proposed rule issued in January of this year. It adopts the revised notice of proposed rulemaking as presented and reflects input received during both comment periods. The final rule is revenue-neutral, so that aggregate assessment revenue collected from established small banks under the final rule is expected to be approximately the same as it would have been otherwise.

The final rule will be used to determine assessment rates for established small banks beginning the quarter after the Deposit Insurance Fund reserve ratio reaches 1.15 percent, but no earlier than the third quarter of this year. As of the end of 2015, the reserve ratio was 1.11 percent. The final rule follows FDIC's adoption of new surcharges for banks with assets greater than $10 billion in an effort to raise the reserve ratio to 1.35 percent by the end of 2018.

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