

tested for insulation imperfections in accordance with § 1755.702(e)(7) and § 1755.703(b)(5), respectively.

(2) *Capability tests.* Tests on a quality assurance basis shall be made as frequently as is required for each manufacturer to determine and maintain compliance with:

- (i) Performance of the conductors;
- (ii) Performance of the conductor insulation and jacket material;
- (iii) Sequential marking and lettering;
- (iv) Mutual capacitance, capacitance unbalance, attenuation, and crosstalk;
- (v) Conductor resistance, resistance unbalance, and insulation resistance;
- (vi) Dielectric strength and fusing coordination;
- (vii) Impact, abrasion, static load, elongation, and plasticizer compatibility tests; and
- (viii) Cold temperature handling, light absorption, low temperature separation, and flammability tests.

(c) *Summary of records of electrical and physical tests.* (1) Each manufacturer shall maintain suitable summary records for a period of at least 3 years of all electrical and physical tests required on completed wire as set forth in paragraph (b) of this section. The test data for a particular lot of aerial service wire shall be in a form such that it may be readily available to the purchaser or to RUS upon request.

(2) Measurements and computed values shall be rounded off to the number of places or figures specified for the requirement according to ANSI/ICEA S-89-648-1993, paragraph 1.3.

(d) *Manufacturing irregularities.* (1) Repairs to the insulation of CCSR aerial service wires are not permitted in wires supplied to end users under §§ 1755.700 through 1755.704.

(2) Repairs to the jacket of NMR aerial service wires are not permitted in wires supplied to end users under §§ 1755.700 through 1755.704.

(e) *Splicing.* Splicing of completed CCSR and NMR aerial service wires shall comply with the requirement specified in ANSI/ICEA S-89-648-1993, paragraph 8.1.1.

(f) *Preparation for shipment.* (1) CCSR and NMR aerial service wire shall be shipped either in coils or on reels.

(2) When CCSR and NMR aerial service wires are shipped on reels the following provisions shall apply:

(i) The diameter of the drum shall be large enough to prevent damage to the wire from reeling or unreeling. The reels shall be substantial and so constructed as to prevent damage to the wire during shipment and handling;

(ii) A waterproof corrugated board or other suitable means of protection accepted by RUS prior to its use may be

applied to the reel. If the waterproof corrugated board or other suitable material is used for protection, it shall be suitably secured in place to prevent damage to the wire during storage and handling. The use of the waterproof corrugated board or other suitable means of protection shall be at the option of the manufacturer unless specified by the end user;

(iii) The outer end of the wire shall be securely fastened to the reel head so as to prevent the wire from becoming loose in transit. The inner end of the wire shall be securely fastened in such a way as to make it readily available if required for electrical testing. Spikes, staples, or other fastening devices which penetrate the conductor insulation of the CCSR aerial service wire and the jacket of the NMR aerial service wire shall not be used. The method of fastening the wire ends shall be accepted by RUS prior to their use;

(iv) Each length of wire shall be wound on a separate reel;

(v) Each reel shall be plainly marked to indicate the direction in which it should be rolled to prevent loosening of the wire on the reel; and

(vi) Each reel shall be stenciled or labeled on either one or both sides with the following information:

(A) Customer order number;

(B) Manufacturer's name and product code;

(C) Factory reel number and year of manufacture;

(D) Gauge of conductors and pair size of wire;

(E) Length of wire; and

(F) RUS designation letter "K."

(3) When CCSR and NMR aerial service wires are shipped in coils the following provisions shall apply:

(i) The diameter of the coil shall be large enough to prevent damage to the wire from coiling or uncoiling;

(ii) The nominal length of the wire in a coil shall be 305 meters (1,000 feet). No coil shall be less than 290 meters (950 feet) long or more than 460 meters (1,500 feet) long; however, 25 percent of the total number of coils may be less than 305 meters (1,000 feet);

(iii) The coils of wire shall be wound securely with strong tape in four separate evenly spaced places;

(iv) The coils may be protected from damage by wrapping the coil with heavy paper, burlap, or other suitable material accepted by RUS prior to its use. The use of the heavy paper, burlap, or other suitable means of protection shall be at the option of the manufacturer unless specified by the end user; and

(v) Each coil shall be tagged with the following information:

(A) Customer order number;

(B) Manufacturer's name and product code;

(C) Year of manufacture;

(D) Gauge of conductors and pair size of wire;

(E) Length of wire; and

(F) RUS designation letter "K."

(4) In lieu of wrapping the coil with heavy paper, burlap, or other suitable material, the coil may be packaged in a moisture resistant carton.

(5) When the coils are shipped in moisture resistant cartons, each carton shall be marked with the information specified in paragraphs (f)(3)(v)(A) through (f)(3)(v)(F) of this section.

(6) Other methods of shipment may be used if accepted by RUS prior to their use.

(7) When NMR aerial service wire is shipped, the ends of the wire shall be sealed in accordance with ANSI/ICEA S-89-648-1993, paragraph 9.2.

Dated: May 10, 1996.

Jill Long Thompson,

Under Secretary, Rural Development.

[FR Doc. 96-12834 Filed 5-23-96; 8:45 am]

BILLING CODE 3410-15-P

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 327

Assessments; Continuation of Adjusted Rate Schedule for BIF-Assessable Deposits

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Continuation of adjusted rate schedule.

SUMMARY: On May 14, 1996, the Board of Directors of the FDIC (Board) adopted a resolution to continue in effect the current downward adjustment to the assessment rate schedule applicable to deposits assessable by the Bank Insurance Fund (BIF). The continuation of the downward adjustment will apply to the semiannual assessment period beginning July 1, 1996. As a result, the BIF assessment rates will continue to range from 0 to 27 basis points. This rate schedule will result in an estimated average annual assessment rate of approximately 0.29 basis points; the estimated annual revenue produced by this rate schedule will be \$72 million.

EFFECTIVE DATE: July 1, 1996, through December 31, 1996.

FOR FURTHER INFORMATION CONTACT: Frederick S. Carns, Assistant Director, Division of Insurance, (202) 898-3930; Christine E. Blair, Financial Economist, Division of Research and Statistics,

(202) 898-3936; James R. McFadyen, Senior Financial Analyst, Division of Research and Statistics, (202) 898-7027; Christopher L. Hencke, Counsel, Legal Division, (202) 898-8839; Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C., 20429.

SUPPLEMENTARY INFORMATION:

I. Continuation of Adjustment to Rate Schedule 2

Section 7(b) of the Federal Deposit Insurance Act, 12 U.S.C. 1817(b), provides that the Board shall set semiannual assessments for insured depository institutions. On August 8, 1995, the Board adopted a new assessment rate schedule for deposits subject to assessment by the BIF. 60 FR 42680 (August 16, 1995). The new schedule was codified as Rate Schedule 2 at 12 CFR 327.9(a). This schedule provided for an assessment-rate range of 4 to 31 basis points and became effective retroactively on June 1, 1995, the beginning of the month following the month in which the BIF reached its designated reserve ratio (DRR) of 1.25 percent of total estimated insured deposits.

In adopting Rate Schedule 2, the Board also amended the FDIC's assessment regulations to permit the Board to make limited adjustments to the schedule without notice-and-comment rulemaking. Any such adjustments can be made as the Board deems necessary to maintain the BIF reserve ratio at the DRR and can be accomplished by Board resolution. Under this provision, codified at 12 CFR 327.9(b), any such adjustment must not exceed an increase or decrease of 5 basis points and must be uniform across the rate schedule.

The amount of an adjustment adopted by the Board under 12 CFR 327.9(b) is to be determined by the following considerations: (1) the amount of assessment revenue necessary to maintain the reserve ratio at the DRR; and (2) the assessment schedule that would generate such amount of assessment revenue considering the risk profile of BIF members. In determining the relevant amount of assessment revenue, the Board is to consider BIF's expected operating expenses, case resolution expenditures and income, the effect of assessments on BIF members' earnings and capital, and any other factors the Board may deem appropriate.

Having considered all of these factors, the Board decided on November 14, 1995, to adopt an adjustment factor of 4 basis points for the semiannual assessment period beginning January 1, 1996, with a resulting adjusted schedule

ranging from 0 to 27 basis points. 60 FR 63400 (December 11, 1995). The Board has now decided to adopt the same adjustments to Rate Schedule 2 for the upcoming semiannual period from July 1, 1996 to December 31, 1996. The adjusted rate schedule is set forth below.

BIF RATE SCHEDULE AS ADJUSTED FOR THE SECOND SEMIANNUAL PERIOD OF 1996

Capital group	Supervisory subgroup		
	A	B	C
1	10	3	17
2	3	10	24
3	10	24	27

¹ Subject to a statutory minimum assessment of \$1,000 per semiannual period (which also applies to all other assessment risk classifications).

The basis for the Board's decision is discussed below.

II. Basis for the Adjustment

A. Maintaining at the Designated Reserve Ratio

In adopting a rate adjustment under 12 CFR 327.9(b), as mentioned above, the Board must consider the following: (1) the amount of assessment revenue necessary to maintain the reserve ratio at the DRR; and (2) the assessment schedule that would generate such amount of assessment revenue considering the risk profile of BIF members.

The BIF reserve ratio stood at 1.30 percent as of December 31, 1995, the latest date for which complete data are available. Assuming that insured deposit growth during the first half of 1996 falls within the range of 2 percent shrinkage to 6 percent growth annually, and assuming that insurance losses remain moderate as expected, the BIF ratio will range from 1.29 to 1.34 percent at midyear 1996 (Table 1).

For the second half of 1996, insurance losses and operating expenses are expected to total under \$350 million, while assessments plus investment income will exceed \$650 million.

Insured deposit growth for 1996 is subject to considerable uncertainty, as recent experience has been mixed. From 1991 through early 1995, the growth rate of BIF-insured deposits was essentially zero but, for the year ending in December 1995, BIF-insured deposits grew by 3 percent, with much of this growth occurring in the fourth quarter. In light of the 1995 experience, as well as considerable volatility in deposit growth experienced during the 1980s, the FDIC must consider the possibility

that BIF-insured deposits could grow at a 6 percent annual rate throughout 1996.

Table 1 indicates the year-end 1996 range for the BIF reserve ratio, assuming a 6 percent upper bound for annual deposit growth in 1996 and assuming that the values of other variables affecting the reserve ratio in the second semiannual period will fall within their historical ranges. While the lower bound on the year-end BIF reserve ratio is below the 1.25 percent target, this presumes an unexpected increase in insurance losses/provisions of \$600 million. Such an increase is consistent with the historical experience of the FDIC, but it must be viewed as a remote possibility in light of the current economic environment and the near-term outlook.

The stronger possibility is that insured-deposit growth rates could exceed forecasts based upon historical experience. While the 6 percent upper bound for deposit growth included in Table 1 is high relative to the experience of the 1990s, the FDIC cannot rule out such a rate of growth in response to the dramatic reductions in BIF assessment rates that were effected in the second half of 1995.

Moreover, given the prospect of a continuing, large premium differential between the insurance funds, there is a realistic possibility of substantial deposit migration from the SAIF to the BIF. Though the law imposes constraints on at least some forms of deposit-shifting from one fund to another, such constraints may be countered by adaptations in the marketplace. The relatively low rate of migration to date is not likely to be indicative of the rate to be expected going forward, given that many market participants may have delayed any plans to migrate deposits in anticipation of a legislative solution. In the absence of a legislative solution to date, the FDIC believes that there is a realistic possibility of a significant increase in deposit migration. However, the precise timing and ultimate magnitude of any increase is uncertain.

For illustration, Table 2 examines the impact on the year-end BIF reserve ratio of alternative deposit migration rates during the second semiannual period of 1996. Columns 2 through 4 of the table indicate the impact of deposit migration rates under three different assumptions concerning "normal" growth of BIF-insured deposits (growth that is not due to migration) for 1996. For example, the ratios in the third column are derived under the assumption that normal deposit growth is 2 percent for 1996 (full year); assuming also that no deposit migration occurs during the year, the

year-end BIF ratio would be 1.32 percent (the assumed values for all nondeposit factors affecting the reserve ratio are constant across columns 2-4). Table 2 indicates that, in general, each 5 percent increase in the annual rate of migration during the second half of 1996 (to a maximum annual rate of 30 percent) would reduce the year-end 1996 BIF ratio by approximately 1 basis point. If 30 percent annual migration in the second half of 1996 were to occur along with 6 percent "normal" growth of BIF-insured deposits, the BIF ratio at year end would be 1.23 percent under the assumptions of Table 2.

Given the uncertainties reviewed above, the possibility of a large increase in BIF-insured deposit growth during 1996 should be considered seriously. Despite this concern, it is the judgment of the Board that BIF assessment rates should not be changed at this time; rather, deposit flows and trends in deposit growth rates should be closely monitored in preparation for future decisions regarding BIF assessment rates.

In summary, for the reasons discussed above, the Board believes that the assessment schedule for the current semiannual period will generate the revenue necessary to maintain the reserve ratio at the DRR in the next semiannual period.

B. The Long-Term Outlook

The Board believes that an important consideration in setting rates is the long-term revenue needs of the BIF. A balance should exist between long-term BIF revenues and long-term BIF

expenses (where expenses include monies needed to prevent dilution due to deposit growth). In August of 1995, the FDIC determined that an effective average BIF assessment rate of 4 to 5 basis points would be appropriate to achieve such balance. This determination was based on a thorough historical analysis of FDIC experience and consideration of recently enacted statutory provisions that may moderate deposit insurance losses going forward. 60 FR 42680 (August 16, 1995).

The Board has not altered its view that, in setting rates, it should look beyond the immediate time frame in estimating the revenue needs of the BIF. Moreover, the Board continues to believe that an average annual assessment rate of 4 to 5 basis points would be appropriate to achieve a long-term balance between BIF revenues and expenses. As discussed in the preceding section, however, the current balance in the BIF also is directly relevant to determining the appropriate assessment level. In light of the favorable existing conditions and outlook for the next several months, it is anticipated that the current rate structure (with an assessment rate of zero for the least-risky institutions) will provide adequate assessment revenue over the near term to maintain the BIF reserve ratio at or above the target ratio of 1.25 percent.

C. Other Considerations

In continuing the current adjustments to the assessment rate schedule, the Board has considered the effect on members' earnings and capital. In light

of the fact that these adjustments represent a reduction in the rates set forth in Rate Schedule 2, the Board does not believe that the schedule will produce unwarranted adverse effects on members. Indeed, the rate for many institutions will be zero (with a minimum semiannual assessment of \$1,000 mandated by the Federal Deposit Insurance Act).

Another consideration is the statutory requirement under the Federal Deposit Insurance Act for a risk-based assessment system. To be effective, this system must incorporate a range of rates that provides an incentive for institutions to control risk-taking behavior while at the same time covering the long-term costs of the obligations borne by the deposit insurer. In the judgment of the Board, these goals will be achieved for the upcoming semiannual period by retaining the current spread of 27 basis points between the highest- and lowest-rated institutions.

For the reasons discussed above, the Board has decided to continue in effect the current adjustment to the BIF assessment rate schedule with a range of 0 to 27 basis points for the semiannual period from July 1, 1996 through December 31, 1996.

By order of the Board of Directors.

Dated at Washington, DC, this 14th day of May, 1996.

Federal Deposit Insurance Corporation.
Robert E. Feldman,
Deputy Executive Secretary.

BILLING CODE 6714-01-P

Table 1

BIF Assessment Rates Factors to be Considered

Second Semiannual Assessment Period, 1996

BIF Ratio at June 30, 1996 (Percent) (1)	1.29 to 1.34
Expected Income (\$Millions)	644 to 701
Assessment Income (\$Millions)	36
Interest Income (\$Millions) (2)	608 to 665
Expected Insurance Losses and Change in Provisions for Future Losses (\$Millions) (3)	-100 to 600
Expected Operating Expenses (\$Millions)	204
Estimated BIF-Insured Deposits at December 31, 1996 (\$Billions) (4)	1,913 to 2,070
BIF Ratio at December 31, 1996 (Percent) (5)	1.24 to 1.38

(1) Range reflects annual insured deposit growth rate of +6 percent versus -2 percent for first half of 1996.

(2) Range reflects interest earnings of 5.5 versus 6 percent annually.

(3) Range based on FDIC experience, as reviewed in *Federal Register* notice of August 16, 1995 (12 CFR Part 327).

(4) Lower bound assumes annual growth of insured deposits of -2 percent for 1996; upper bound assumes annual growth of 6 percent.
Range based on quarterly volatility evidence from 1984:Q2 to 1995:Q1. The SAIF/BIF premium differential creates a potential for substantial deposit migration from SAIF to BIF. See Table 2 for the effects of alternative migration rates on the year-end 1996 BIF ratio.

(5) Reflects ranges for all preceding items in Table 1.

Prepared by: Division of Insurance, FDIC

Table 2

Effect of SAIF Migration on BIF Reserve Ratio at December 31, 1996

Annual Rate of non-Oakar Deposit Migration from SAIF to BIF During Second Half of 1996*	BIF Ratio at December 31, 1996 (Percent) with "Normal" Growth of**		
	<u>-2%</u>	<u>+2%</u>	<u>+6%</u>
(1)	(2)	(3)	(4)
0%	1.38	1.32	1.27
5%	1.37	1.31	1.26
10%	1.36	1.31	1.26
15%	1.35	1.30	1.25
20%	1.34	1.29	1.24
30%	1.33	1.28	1.23

* Reflects the percent of the non-Oakar assessment base that migrates to the BIF. Because most BIF-member Oakars own a relatively small proportion of SAIF-assessable deposits, they are less likely to pursue a migration strategy. Assessment savings typically would be small relative to the costs and complexities of establishing new affiliates, encouraging depositors to switch accounts, placing greater reliance on non-deposit funding, and pursuing other avoidance mechanisms. Migration, therefore, is likely to come from the non-Oakar portion of the SAIF assessment base. Note that zero migration is assumed for the first half of 1996.

** We refer to "normal" growth as deposit growth that is not due to migration. Growth rates in columns 2 through 4 are for the full year 1-1-96 through 12-31-96. Values for all other variables affecting the reserve ratio are constant across columns in Table 2, and are as follows:

- (1) Assessment income is assumed to be \$36 million per semiannual period
- (2) Interest and other income is assumed to be \$690 million per semiannual period
- (3) The sum of insurance losses, provisions for future losses, and operating expenses is assumed to be \$250 million per semiannual period

Given these benchmark values, the BIF reserve ratio as of June 30, 1996 is assumed to be 1.34% for column 2, 1.32% for column 3, and 1.29% for column 4. For the three rates of normal growth, the table traces the implications of different rates of second-half 1996 migration for the year-end 1996 BIF reserve ratio. The table is presented for illustrative purposes only.

Prepared by: Division of Insurance, FDIC