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**		
	-2%	+2%	+6%
(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

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12 CFR Part 327

Assessments; Retention of Existing Assessment Rate Schedule for SAIF-Member Institutions

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Confirmation of assessment rate.

SUMMARY: On May 14, 1996, the Board of Directors of the FDIC (Board) adopted a resolution to retain the existing assessment rate schedule applicable to members of the Savings Association Insurance Fund (SAIF) for the semiannual period beginning July 1, 1996. As a result of this action, the SAIF assessment rates to be paid by depository institutions whose deposits are subject to assessment by the SAIF will continue to range from 23 cents per $100 of assessable deposits to 31 cents per $100 of assessable deposits, depending on risk classification.

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

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SUPPLEMENTARY INFORMATION:

I. Confirmation of Assessment Rate

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. For members of the undercapitalized SAIF, the Board must set assessment rates to increase the reserve ratio of the SAIF to the designated reserve ratio (DRR) of 1.25 percent of estimated insured deposits. 12 U.S.C. 1817(b)(2)(A)(i). The Board must consider SAIF's expected operating expenses, case resolution expenditures and income, the effect of assessments on members' earnings and capital, and any other factors that the Board may deem appropriate. 12 U.S.C. 1817(b)(2)(A)(ii).

The minimum semiannual assessment for each member is $1,000. 12 U.S.C. 1817(b)(2)(A)(iii). Moreover, the total amount raised by SAIF assessments must not be less than the total amount that would be raised by a rate of 18 basis points. 12 U.S.C. 1817(b)(2)(E). The assessment revenue is subject to a priority claim by the Financing Corporation (FICO). 12 U.S.C. 1817(b)(2)(D).

In accordance with the statutory requirements above, the Board adopted the SAIF assessment rate schedule codified at 12 CFR 327.9(d)(1). The Board has applied this schedule in previous assessment periods as well as the current period from January 1, 1996 through June 30, 1996. 60 FR 63406 (December 11, 1995). The Board has now decided to retain this schedule for the upcoming semiannual period from July 1, 1996 through December 31, 1996.

II. Basis for Confirmation

In setting assessment rates, the Board must increase the reserve ratio of the SAIF to the DRR of 1.25 percent of estimated insured deposits. On December 31, 1995, the SAIF had a balance of nearly $3.4 billion and a reserve ratio of 0.47 percent of insured deposits, about $5.5 billion below the amount needed to meet the DRR. The SAIF reserve ratio continues to rise, but the rate of progress is slowed by the diversion of assessment revenues to other statutory purposes. Since the inception of the SAIF in 1989, these diversions have totaled $7.7 billion. Without these diversions, the SAIF would be fully capitalized today. Some of these demands on the SAIF have been fully satisfied, but FICO continues to have an annual draw of up to $793 million against SAIF assessments, until 2019.

The SAIF grew by $1.4 billion in 1995, but a large share of that growth—$321 million—stemmed from the reduction in loss reserves for anticipated failures. These reductions in loss reserves reflect recent improvements in the health of the thrift industry and a decline in projected thrift failures. Further reductions in reserves of this magnitude will not happen again because the remaining loss reserves are now only approximately $111 million.

At the present pace and under reasonably optimistic conditions, the SAIF is not expected to meet the DRR until 2001, which is slightly ahead of the capitalization date projected last year. The acceleration of the capitalization date is attributable to lower-than-expected loss experience in 1995 and the lowering of loss projections for 1996 and 1997. The thrift industry is healthy today, and no large thrifts are expected to fail in the near future. Thrifts earned record profits of $7.6 billion in 1995, and the number and assets of ''problem'' thrifts continue to decline. Presently, 88 percent of all SAIF members qualify for the lowest premium under the FDIC's risk-based assessment system. However, it is not known how much longer the present favorable conditions can continue, and it would be prudent for the SAIF to be fully capitalized as quickly as possible to be prepared for future uncertainties.

The Board has the option of lowering SAIF assessment rates to a minimum average annual assessment rate of 18 basis points until January 1, 1998, at which time rates must return to a minimum average annual assessment rate of 23 basis points until the DRR is attained. However, the lowering of rates for this 18-month period would delay the SAIF from reaching full capitalization and could result in a FICO default in 1997.

Other developments have threatened the stability of the SAIF. Given the recapitalization of the Bank Insurance Fund (BIF) in 1995, the Board subsequently lowered BIF premiums to an average of just 0.3 basis points, compared to the average SAIF premium of 23.4 basis points. This disparity between BIF and SAIF premiums of about 23 basis points provides powerful economic incentives for SAIF-insured institutions to reduce their SAIF-assessable deposits. Despite a general ban on conversions between insurance funds, thrifts have developed and are pursuing means to transfer deposits from SAIF to BIF insurance or otherwise reduce their reliance on SAIF-assessable deposits. During 1995, for example, one large SAIF member shifted an estimated $3.4 billion in deposits to a BIF-member affiliate, and another thrift took advantage of an Oakar accounting anomaly that caused $3.3 billion of SAIF deposits to be reclassified as BIF deposits following the sale of BIF-insured deposits.

The migration of deposits out of the SAIF deposit base would accelerate the capitalization of the SAIF (see Table 2), but it would exacerbate the problems facing the SAIF by reducing the fund's ability to diversify its risks. It is likely to be the stronger SAIF members that will be successful in shifting deposits to the BIF. As a result, weaker thrifts and the banks that own SAIF deposits would be more exposed to the losses of an insurance fund that will have a higher risk profile.

If the Board were to lower SAIF assessment rates to 18 basis points, it would reduce the premium disparity from 23 basis points to 18 basis points, but it is unlikely that a temporary reduction of 5 basis points would temper the existing incentives to reduce reliance on SAIF-assessable deposits. Moreover, a reduction in assessment rates, in combination with a shrinking assessment base, would hasten a FICO shortfall (see Tables 3 and 4).

In recommending that SAIF assessment rates remain unchanged, the Board has considered the impact on the earnings and capital of SAIF members and found no unwarranted adverse effects. As discussed earlier, the earnings and capital of SAIF members are satisfactory though the Board has recognized that the full impact of the premium disparity may not yet be realized.

Pending enactment of a comprehensive legislative solution to the problems facing the SAIF, the FDIC must operate within the existing statutory framework. For the reasons discussed above, the Board has decided to retain the current SAIF assessment rate schedule of 23 to 31 basis points in order to enable the SAIF to reach full capitalization as quickly as possible. The schedule to be applied for the semiannual period from July 1, 1996, through December 31, 1996, is codified at 12 CFR 327.9(d)(1).

By order of the Board of Directors.

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

Federal Deposit Insurance Corporation.

Robert E. Feldman,

Deputy Executive Secretary.

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Table 1

SAIF Assessment Rates
(basis points)

Capital Category	Supervisory Subgroup A	B	C
1	23	26	29
2	26	29	30
3	29	30	31

SAIF Assessment Base Distribution
Deposits as of December 31, 1995
Supervisory and Capital Ratings in Effect January 1, 1996

Capital Category		Supervisory Subgroup A		B		C	
Well	Number	1,514	87.7%	127	7.4%	19	1.1%
	Base ($bill)	667.4	90.9%	39.9	5.4%	2.3	0.3%
Adequate	Number	17	1.0%	20	1.2%	25	1.4%
	Base ($bill)	7.1	1.0%	9.2	1.3%	7.3	1.0%
Under	Number	0	0.0%	0	0.0%	5	0.3%
	Base ($bill)	0.0	0.0%	0.0	0.0%	1.1	0.2%

Note: "Number" reflects the number of SAIF members; "Base" reflects the SAIF–assessable deposits of SAIF members and of BIF–member Oakar banks.

Annual assessment revenue	1.7	billion
Assessment base	734.3	billion
Average assessment rate	23.4	basis points

Table 2

Projected 12/31/96 SAIF Reserve Ratio Based on The Migration of Non–Oakar Insured Deposits (billions of dollars)

- Under reasonably optimistic conditions, the SAIF reserve ratio is expected to approach 0.61 percent by year–end 1996.
- However, the migration of deposits from the SAIF to the BIF would accelerate the SAIF's capitalization.
- Because most BIF–member Oakars own a relatively small proportion of SAIF–assessable deposits, they are less likely to pursue a migration strategy.
- Migration, therefore, is likely to come from the non–Oakar portion of the SAIF assessment base.
- If the non–Oakar portion of the SAIF assessment base were to shrink by 30 percent, the SAIF reserve ratio could increase to 0.75 percent by year–end 1996.

	Annual Migration Rate	Non–Oakar Insured Deposits	BIF–Member Oakar Deposits	Total Insured Deposits	SAIF Balance	Reserve Ratio
12/31/95 Actual	– –	492	219	711	3.358	0.47%
12/31/96 Projected	0%	479	227	706	4.299	0.61%
	5%	454	227	681	4.292	0.63%
	10%	429	227	656	4.285	0.65%
	15%	405	227	632	4.279	0.68%
	20%	380	227	607	4.272	0.70%
	25%	355	227	582	4.265	0.73%
	30%	341	227	568	4.258	0.75%

Table 3

SAIF Assessment Base Available to Pay FICO (billions of dollars)

- The FICO claim is payable only out of assessments paid by SAIF–member savings associations. This excludes SAIF assessments paid by "Oakar" and "Sasser" banks.
- The FICO–available assessment base is shrinking 11 percent per year, on average.
- Shrinkage of the FICO base slowed in 1995 as deposit growth partially offset additional Oakar purchases.

	Total Assessment Base	Less: Oakars	Less: Sassers	FICO–Available Base	Change From Prior Year–End	Average Assessment Rate [1]	FICO–Required Base [2]	FICO "Cushion" [3]
1995	734.4	218.7	56.4	459.3	−4.4%	23.7	329.1	130.2
1994	714.1	181.7	52.0	480.4	−10.7%	24.4	319.7	160.7
1993	720.8	139.9	42.8	538.0	−16.8%	25.0	312.0	226.0
1992	755.3	80.5	28.4	646.3	−11.5%	23.0	339.1	307.2
1991	811.7	69.8	11.9	730.1	−12.4%	23.0	339.1	391.0
1990	870.0	34.0	2.8	833.3	−11.4%	20.8	375.0	458.3
1989	942.8	2.1	0.0	940.6	– –	20.8	375.0	565.6
				Annual average:	−11.2%			

[1] Basis points (100 basis points equals 1 percent).

[2] Assessment base required to generate $780 million at the average rates in effect, by year. During the first half of 1996, the average SAIF assessment fell to 23.4 basis points, raising the FICO–required base to $333 billion.

[3] The FICO cushion is the amount by which the FICO–available base exceeds the FICO–required base.

Table 4

Impact on FICO of SAIF Assessment Base Shrinkage

- On 12/31/95, the FICO–available assessment base was $459 billion.
- At the current average SAIF assessment rate of 23.4 basis points, FICO requires an assessment base of at least $333 billion to generate an annual payment of $780 million.
- The FICO base declined at an average annual rate of 11 percent from 1989 through 1995. A 27.4 percent decline from the year–end 1995 level could lead to a FICO default.
- The current 23–basis point disparity between BIF and SAIF assessment rates is likely to accelerate the shrinkage of SAIF–assessable deposits.
- The following table shows the year in which a shortfall would occur at various annual rates of assessment base shrinkage.

Shrinkage Rate	Shortfall Year
– 5%	2002
–10%	1999
–11% [1]	1998
–15%	1997
–20%	1997
–25%	1997
–30%	1996

[1] Historical rate of shrinkage.

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