Summary: FDIC's Final Rule to Change the Assessment Base and Schedule

(Last updated February 9, 2011. Future updates will appear in bold blue font.)

On February 7, the FDIC finalized the rule to change its assessment base from total domestic deposits to average total assets minus average tangible equity, as required in the Dodd-Frank Act.[1] The new assessment base will apply to the second quarter of 2011. As is current practice, banks will pay the premium for the second quarter at the end of September. The rule is outlined below.

On the same timeline, the rule adopts a new methodology for calculating the risk-based assessment rate for banks over $10 billion in assets. A summary of that proposal is available at http://www.aba.com/aba/documents/FDIC/LBRBP.pdf.

New Assessment Base

Calculating the Base

The Dodd-Frank Act requires that the FDIC assessment base be changed to consolidated total assets less tangible equity, with adjustments for bankers' banks and custodial banks. The rule requires the quarterly average of daily closing balances of total assets, as is currently reported on Schedule RC-K of the Call Report. (TFR filers would be required to conform to Call Report specifications.) Institutions with less than $1 billion in assets are allowed to report average weekly balances, unless they opt to report daily averages. Once an institution opts to report daily averages, it must continue to do so.

The rule defines tangible equity capital as ***Tier 1 capital***. To calculate the average over the reporting quarter, a bank would average the monthly closing balances. Banks under $1 billion would have the option to use end-of-quarter Tier 1 capital.

Institutions are to consolidate all non-bank subsidiaries in calculating the base, but not any bank subsidiaries (which will pay assessments separately).

Bankers' Banks Adjustment

For institutions that are deemed bankers' banks under 12 USC 24[2] ***and*** that conduct at least half of their business with banks not controlled by their holding companies, the rule allows the assessment base to be reduced by the (daily or weekly, depending on how the institution reports) average of (1) reserve balances passed through the Federal Reserve Banks, (2) own account reserve balances held at the Federal Reserve Banks, and (3) federal funds sold. The adjustment is limited to the sum of the bank's average amount of total deposits of commercial banks and other depository institutions in the United States and the average amount of its federal funds purchased, a change from the proposal.

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[1] See FDIC, "Assessments, Large Bank Pricing," February 7, 2011, www.fdic.gov/news/board/2011rule1.pdf.

[2] Holding funds from government capital infusion programs, stock owned by the FDIC resulting from bank failures, or non-bank-owned stock resulting from equity compensation programs do not exclude an institution from being classified a "bankers' bank."

Custodial Bank Adjustment
The final rule defines "custodial banks" as insured depository institutions with previous calendar-year trust assets (fiduciary and custody and safekeeping assets) of at least $50 billion or an insured depository institution that derived more than 50 percent of its total revenue (interest income plus non-interest income) from trust activity over the previous calendar year.

Qualifying institutions can deduct all assets from lines 34-37 of Schedule RC-R that have a Basel risk weighting of 0 percent, plus 50 percent of assets from those lines with a Basel risk weighing of 20 percent. The final rule removes maturity requirements for deductable assets. The deduction is limited to the daily or weekly average value of deposits classified as transaction accounts and identified as being directly linked to fiduciary or custody and safekeeping accounts, a change from the proposed rule.

Assessment Schedule

The FDIC aims to raise the same expected revenue under the new base as under the current assessment base. Since the new base is larger than the current base, the rule lowers the assessment rate schedule to maintain revenue neutrality. Assessment rates would be reduced to a range of 2½ to 9 basis points on the broader assessment base for banks in the lowest risk category ("well capitalized" and CAMELS I or II) up to 30 to 45 basis points for banks in the highest risk category.

Assessment Schedule on the New Assessment Base

Basis Points	Banks Under $10 Billion of Assets				Banks Over $10 Billion
Risk Category →	I	II	III	IV	
Initial base assessment rate	5-9	14	23	35	5-35
Unsecured debt adjustment*	(4½)-0	(5)-0	(5)-0	(5)-0	(5)-0
Brokered deposit adjustment		0-10	0-10	0-10	0-10
Total base assessment rate**	2½-9	9-24	18-33	30-45	2½-45

*Limited to the lesser of 5 basis points or half of a bank's initial base assessment rate.
**Does not include the proposed depository institution debt adjustment.

As the Deposit Insurance Fund grows, the rate schedule will be adjusted downward in lieu of dividends. For example, once the reserve ratio of the fund (*i.e.*, the fund to insured deposits) exceeds 1.15 percent, the rate for Risk Category 1 banks would fall to a range of 1½ to 7 basis points. Once the reserve ratio exceeds 2.00 percent, the rate for this category would fall to a range of 1 to 6 basis points. Once the reserve ratio exceeds 2.50 percent, the rate for this category would fall to a range of ½ to 5 basis points.

The final rule allows the FDIC to increase or decrease total base assessment rates by no more than 2 basis points from one quarter to the next, and cumulative increases and decreases cannot be 2 basis points higher or lower than the total base assessment rates. Previously, the FDIC was limited to 3 basis point adjustments.

Assessment Rate Adjustments

Long-Term Unsecured Liability Adjustment
The final rule scales the long-term unsecured liabilities assessment rate reduction proportionally to the increase in the assessment base to ensure the institution's cost for this debt remains unchanged. The final rule removes Tier 1 capital from the definition of long-term unsecured liabilities for banks under $10 billion, as it is already deducted from the assessment base. The final rule also eliminates debt that is redeemable within one year of the reporting date from being considered "long-term." The reduction in the assessment rate would be limited to the lesser of 5 basis points or 50 percent of the bank's assessment rate before adjustments.

Secured Liability Adjustment
The rule eliminates the secured liability adjustment, where, under the current system, the assessment rate is raised by as much as 50 percent for banks that finance with a heavy concentration of Federal Home Loan Bank advances, federal funds, and other secured liabilities. This adjustment would no longer be needed as these funds would be reflected in the new assessment base.

Brokered Deposit Adjustment
For banks under $10 billion in assets in Risk Categories II, III, and IV, the rule maintains the existing upward adjustment of the assessment rate for heavy use of brokered deposits – 25 basis points times the ratio of brokered deposits in excess of 10 percent of domestic deposits. For banks over $10 billion, the adjustment applies to all institutions except those that are well-capitalized and have a composite CAMELS rating of 1 or 2, a change from the proposed rule.

The rule maintains a 10 basis point cap on the adjustment. Because this provision applies the adjustment rate to the new, larger base and does not scale the existing 10 basis point cap to reflect its application on a larger base, the potential impact of this provision is markedly higher.

As mandated by the Dodd-Frank Act, the FDIC is reviewing the definition and treatment of brokered deposits and will publish its results by July 21, 2011.

Depository Institution Debt Adjustment
The final rule adds a "Depository Institution Debt Adjustment" whereby a bank of any size would pay an additional premium of 50 basis points on every dollar of long-term unsecured debt issued by another bank in excess of 3 percent of its Tier 1 capital. This does not include debt issued by a bank holding company. "Long-term" is defined as a maturity in excess of one year, and debt guaranteed under the FDIC's Temporary Liquidity Guarantee Program is not assessed, since this debt will not decrease FDIC losses should the bank fail.