semiannual assessments for their own business reasons. The FDIC further recognizes that institutions may have arranged their affairs in the expectation that the first payment for 1996 will be due in 1995. The FDIC is providing the prepayment option in order to enable these institutions to avoid unnecessary disruption and financial disadvantage.

## 2. Interest on Underpaid and Overpaid Assessments

The FDIC is proposing to replace the interest rate that is applied to underpaid assessments and overpaid assessments. The current rate is the TFRM rate (which is now 5.00% per annum), which is compounded annually. The FDIC would replace this rate with a more market-sensitive rate: the coupon equivalent rate set on the 3-month Treasury bill at the last auction held by the U.S. Treasury Department before the start of the quarter. Interest would be compounded as of the first day of each subsequent quarter. Currently, this rate is 5.51% per annum (see below).

Under the current regulation, interest begins to run on the day after collection date and continues to run through the day on which the debt is paid. If the new collection schedule were adopted, the collection date for the first quarterly payment for 1996 would be January 2. Interest on any overpayments or underpayments due on that date would begin to run on January 3.<sup>1</sup>

The next collection date is March 29 (March 30 being a Saturday). The FDIC would ordinarily collect or repay the full amount of the overpayment or underpayment (plus interest) on that date by adjusting the payment then due. Accordingly, interest on the overpayment or underpayment would run through March 29.

The initial interest rate would be the rate for the quarter for which (but not generally in which) the payment would be made. The collection date for the first quarter would be January 2, which falls within that quarter. But the collection dates for the second, third, and fourth calendar quarters are March 30, June 30, and September 30, respectively; if the regularly scheduled collection date falls on a weekend or holiday, the collection date is the preceding business day. Each of these collection dates falls in the quarter preceding the quarter for which the payment is due. Nevertheless, the initial interest rates on any underpayments or overpayments of payments due on these dates would be the rates for the second, third, and fourth quarters, respectively.

This initial interest rate on an overpayment or underpayment would apply to the amount in question for the entire interval running from the day after the collection date through the end of the quarter, or until the overpayment or underpayment were discharged, whichever came first. The FDIC would redetermine the rate at the beginning of each quarter. If any portion of the overpayment or underpayment (including interest) remained outstanding at that time, the FDIC would apply the new quarter's rate to the outstanding amount, beginning on the first day of the new quarter.

If the proposed rate had been in effect for the third quarter in 1995, the FDIC would have computed interest on an overpayment or underpayment of an amount due for that quarter as follows:

The FDIC would have based the rate on the average rate for the 3-month Treasury bill set at the June 26, 1995, auction (settling on June 29, 1995). On a bank discount rate basis (360-day year with no compounding), the auction resulted in a 5.35% average rate. This converts to a coupon equivalent rate of 5.51% according to the United States Treasury Department.

June 30 is the collection date. On the following day (July 1) the FDIC would have begun to apply the 5.51% rate to overpayments or underpayments collected on June 30. The outstanding amount would ordinarily be repaid on the next collection day, which falls on September 29 (September 30 being a Saturday).

A \$1 million overpayment collected on June 30 and refunded on September 29 would have generated 91 days of interest:  $(91/366) \times .0551 \times \$1,000,000 = \$13,699.73.^2$ 

The FDIC is proposing to adopt the new rate because the new rate more closely approximates the opportunity cost of money both for the institution and for the FDIC. If an institution were to overpay its assessment, the FDIC would return to the institution the benefit that the institution would have been able to obtain by investing the excess amount. Conversely, if an institution were to underpay its assessment, the institution would have to restore to its fund—the Bank Insurance Fund (BIF) or the Savings Association Insurance Fund (SAIF)—the economic value of the interest that the fund would otherwise have earned.

The FDIC would apply the new rate (and the quarterly compounding) prospectively, not retroactively. The FDIC would apply the new rate to payments due for the first quarter of 1996 and thereafter, and to any outstanding amounts owed to or by the FDIC on and after January 1, 1996. For amounts owed to or by the FDIC during intervals prior to January 1, 1996, the FDIC would continue to apply the thencurrent TFRM rate (and the annual compounding) for those intervals.

## **C. Effect on the Insurance Funds**

## 1. The Payment Schedule

The proposed shift in the collection date is not expected to have any substantial adverse impact on the insurance funds.

In the case of the BIF, the maximum amount of the interest foregone as a result of delaying the collection is not expected to exceed \$600,000. The actual amount of the foregone interest is likely to be considerably less, as many BIF members can be expected to take advantage of the prepayment election. Accordingly, the FDIC considers that the BIF would not suffer any material harm by the loss of this revenue.

In the case of the SAIF, the foregone interest is not expected to exceed \$108,000. Here again, the actual amount is likely to be considerably less. While this sum is not insubstantial, the FDIC believes that its loss would not materially harm the SAIF under current conditions, and would not impede the SAIF's progress toward recapitalization.

## 2. Interest on Underpaid and Overpaid Assessments

The change from the TFRM rate to the new rate is not expected to have any material impact on either the BIF or the SAIF. The net yearly amount routinely subject to the interest rate-that is, the net of the amounts that institutions routinely overpay, minus the amounts they routinely underpay—is approximately \$2,000,000 per year in the aggregate for both funds. This amount represents a net overpayment. It is outstanding for 60 days on average; accordingly, at the current TFRM rate, the FDIC ordinarily pays out a net annual amount of approximately \$16,000 in interest. Under the proposed new rate, the FDIC would pay out approximately \$18,000 yearly-for a net change to the funds of just \$2,000.

<sup>&</sup>lt;sup>1</sup> Even in the case of prepaying institutions, the amounts to be collected from the institutions would not be due until the regular collection date. Accordingly, interest on overpayments and underpayments would begin to run from the regular collection date, not the prepayment date.

Furthermore, as noted above, the proposed rule does not contemplate that the FDIC would pay interest on prepaid assessments. In particular, if an institution elected to prepay double the amount of a first payment, the doubled amount would not be regarded as an "overpayment," and the FDIC would not pay interest on the extra amount so paid.

<sup>&</sup>lt;sup>2</sup> The third calendar quarter in 1995 falls within the leapyear cycle that begins on March 1, 1995, and ends on February 29, 1996.