deposits subject to assessment by the Bank Insurance Fund (BIF). 60 FR 42680 (August 16, 1995). The new schedule (codified as Rate Schedule 2 at 12 C.F.R. 327.9(a)) provided for an assessmentrate 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 that rate schedule, the Board took into account the factors required by the assessment provisions of section 7(b) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. 1817(b). Those factors include the requirement for a risk-based assessment system that is based on the risk of loss posed to BIF by each BIF-insured institution, taking into account different categories and concentrations of assets and liabilities and other relevant factors; the likely amount of any such loss; and BIF's revenue needs. (Section 7(b)(1)). They also include the requirement that rates be set to reach or maintain the DRR, taking into account BIF's expected operating expenses, case resolution expenditures and income, the effect of assessments on members' earnings and capital, and any other factors the Board may deem appropriate. (Section 7(b)(2)).

At the same time the Board adopted the current rate schedule, it 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 C.F.R. 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 has decided to adopt an adjustment factor of 4 basis points for

the semiannual assessment period beginning January 1, 1996, with a resulting adjusted schedule as follows:

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

Capital group	Supervisory subgroup		
	Α	В	С
1	10	3	17
2	3	10	24
3	10	24	27

<sup>1</sup> 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

On June 30, 1995, the BIF reserve ratio stood at nearly 1.29 percent, and all indications are that it continued to grow during the third quarter of 1995. If the rates in effect for the current semiannual assessment period were to continue in effect, it is likely that, absent large increases in insurance losses and deposit growth, the reserve ratio would continue to grow during the first half of 1996. BIF operating expenses and insurance losses have been lower than anticipated and are projected to remain low in the near term due to the strong economy and high capital levels in the banking industry. Even taking into account the possibility of large increases in insurance losses and deposit growth that currently appear highly unlikely, it is still probable that the reserve ratio would remain at or above the target reserve ratio of 1.25 percent in the near term. Accordingly, the Board has determined that a reduction in the BIF assessment rate schedule is necessary to comply with the statutory requirements for setting assessment rates, including the requirement that the FDIC maintain the reserve ratio at the target DRR.

## B. Determination of the Adjustment Factor

## 1. Amount of Assessment Revenue Needed

The FDIC determined in August that an effective average BIF assessment rate at the low end of a range beginning at around 4.5 basis points was appropriate to achieve a long-term balance of BIF revenues and expenses (where expenses include monies needed to prevent dilution due to deposit growth). 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.

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 fund. However, under the law, the current balance in the BIF also is directly relevant to determining the appropriate assessment level for the first semiannual period of 1996. In light of the favorable existing conditions and outlook for the next several months, it is anticipated that even an adjustment sufficient to reduce the rate for the leastrisky institutions essentially to zero for the next assessment period would still provide assessment revenue in an amount that is expected to maintain the BIF reserve ratio at or above the target ratio of 1.25 percent in the near term.

In deciding upon a rate schedule for the second semiannual assessment period of 1995, the Board considered high-growth and low-growth scenarios for the BIF balance and the anticipated reserve ratio at year end. Current information suggests that the BIF balance and reserve ratio at year end will correspond more closely to the high-than the low-growth scenario, as indicated below.

The BIF reserve ratio stood at nearly 1.29 percent as of June 30, 1995, the latest date for which complete data are available. Assuming annualized insured deposit growth of between 0 and 2 percent during the third quarter, the BIF reserve ratio may have achieved 1.30 to 1.31 percent as of September 30, 1995.1 All indications are that the reserve ratio will continue to rise for the remainder of 1995.

Insurance losses and operating expenses for the second half of 1995 are expected to total under \$400 million, while assessments plus investment income will exceed \$1 billion for this period. Insured deposit growth for the second half of 1995 likely will be moderate; the annualized growth rate was 1.5 percent for the year ending on June 30, and preliminary estimates suggest that deposit growth will be near zero or possibly negative for the third quarter. Table 1 indicates that the reserve ratio is likely to reach 1.31 to 1.34 percent by year-end 1995, reflecting a range of insured deposit growth from +2 to -2 percent annually for the second half of the year.

<sup>&</sup>lt;sup>1</sup>The BIF reserve ratio as of September 30, 1995, cannot be determined precisely until Call Report data showing BIF-assessable deposits for that date are processed and analyzed. This process is expected to be completed by mid-December 1995.