losses incurred. FDI Act section 7(b)(3)(C).

Amounts assessed by the FICO against SAIF members must be subtracted from the amounts authorized to be assessed by the Board. FDI Act section 7(b)(2)(D).

In order to achieve SAIF capitalization, the Board adopted a riskrelated assessment matrix in September 1992 (see Table 1) which has remained unchanged.

TABLE 1.—SAIF-MEMBER ASSESS-MENT RATE SCHEDULE FOR THE SECOND SEMIANNUAL ASSESSMENT PERIOD OF 1995

[Basis points]

Capital group	Supervisory subgroup					
	А	В	С			
Well capitalized . Adequately cap-	23	26	29			
italized Undercapitalized	26 29	29 30	30 31			

B. Statutory Provisions Governing FICO Assessments

FICO was originated by section 302 of the Competitive Equality Banking Act of 1987 (CEBA), Pub. L. No. 100–86, 101 Stat. 552, 585, which added section 21

to the Federal Home Loan Bank Act (FHLB Act).1 FICO's assessment authority derives from section 21(f) of the FHLB Act, 12 U.S.C. 1441(f). As amended by section 512 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Pub. L. No. 101-73, 103 Stat. 183, 406, section 21(f) requires that FICO obtain funding for "anticipated interest payments, issuance costs, and custodial fees" on FICO obligations from the following sources, in descending priority order: (1) FICO assessments previously imposed on savings associations under pre-FIRREA funding provisions; (2) "with the approval" of the FDIC Board, assessments against SAIF member institutions; and (3) FSLIC Resolution Fund (FRF) receivership proceeds not needed for the Resolution Funding Corporation (REFCORP) Principal Fund.

Under section 21(f)(2), FICO assessments against SAIF members are to be made in the same manner as FDIC insurance assessments under section 7 of the FDI Act. The amount of the FICO assessment—together with any amount assessed by REFCORP under section 21B of the FHLB Act—must not exceed the insurance assessment amount authorized by section 7.² Section 21(f)(2) further provides that FICO "shall have first priority to make the assessment," and that the amount of the insurance assessment under section 7 is to be reduced by the amount of the FICO assessment. One important effect of the FICO assessment is to exacerbate any premium differential that may exist between BIF and SAIF assessment rates.

III. Problems Confronting the SAIF

A. Background: SAIF Assessment Rates

In deciding against changes in the SAIF assessment rate, the Board has considered the SAIF's expected operating expenses, case resolution expenditures and income under a range of scenarios. The Board also has considered the effect of an increase in the assessment rate on SAIF members' earnings and capital. When first adopted, the assessment rate schedule yielded a weighted average rate of 25.9 basis points. With subsequent improvements in the industry and the migration of institutions to lower rates within the assessment matrix, the average rate has declined to 23.7 basis points (based on risk-based assessment categories as of July 1, 1995 and the assessment base as of June 30, 1995see Table 2).

TABLE 2.—SAIF ASSESSMENT BASE DISTRIBUTION SUPERVISORY AND CAPITAL RATINGS IN EFFECT JULY 1, 1995DEPOSITS AS OF JUNE 30, 1995

[In billions]

		Supervisory subgroup						
Capital group	А		В		С			
Well capitalized	Number Base	1,529 \$611.1	86.1% 83.6	137 \$58.4	7.7% 8.0	24 \$17.0	1.4% 2.3	
Adequately capitalized	Number	22	1.2	30	1.7	26	1.5	
Under-capitalized	Base Number Base	\$16.6 0 \$0.2	2.3 0.0 0.0	\$18.3 0 \$0.0	2.5 0.0 0.0	\$6.8 7 \$2.1	0.9 0.4 0.3	

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

The primary source of funds for the SAIF is assessment revenue from SAIFmember institutions. Since the creation of the fund and through the end of 1992, however, all assessments from SAIFmember institutions were diverted to other needs as required by FIRREA.³ Only assessment revenue generated from BIF-member institutions that acquired SAIF-insured deposits under section 5(d)(3) of the FDI Act (12 U.S.C. 1815(d)(3)) (so-called "Oakar" banks) was deposited in the SAIF throughout this period.

B. The SAIF is Significantly Undercapitalized

SAIF-member assessment revenue began flowing into the SAIF on January 1, 1993. However, the FICO has a priority claim on SAIF-member assessments in order to service FICO bond obligations. Under existing statutory provisions, FICO has assessment authority through 2019, the maturity year of its last bond issuance. At a maximum of \$793 million per year, the FICO draw is substantial, and is expected to represent 45 percent of estimated assessment revenue for 1995,

¹ Title III of CEBA, entitled the Federal Savings and Loan Insurance Corporation Recapitalization Act of 1987, directed the Federal Home Loan Bank Board to charter FICO for the purpose of financing the recapitalization of the FSLIC by purchasing FSLIC securities (and, subsequently, securities issued by the FSLIC Resolution Fund as successor to FSLIC).

² The REFCORP Principal Fund is now fully funded and, accordingly, REFCORP's assessment authority has effectively terminated.

³ From 1989 through 1992, more than 90 percent of SAIF assessment revenue went to the FRF, the REFCORP and the FICO.