or 11 basis points of the average assessment rate of 23.7 basis points.[4] The SAIF had a balance of $3.1 billion (unaudited) on September 30, 1995. With primary responsibility for resolving failed thrift institutions residing with the Resolution Trust Corporation (RTC) until June 30, 1995, there were few demands on the SAIF. The SAIF assumed resolution responsibility for failed thrifts from the RTC on July 1, 1995.

In addition to assessment revenue and investment income, there are other potential sources of funds for the SAIF as follows. First, the FDIC has a $30 billion line of credit available from the Department of the Treasury (Treasury) for deposit insurance purposes, on which no draws have been made to date. FDI Act section 14(a). The SAIF would be required to repay any amounts borrowed from the Treasury with revenues from deposit insurance premiums. As a condition of borrowing, the FDIC would be required to provide the Treasury with a repayment schedule demonstrating that future premium revenue would be adequate to repay any amount borrowed plus interest. FDI Act section 14(c).

Next, the RTCCA authorized the appropriation of up to $8 billion in Treasury funds to pay for losses incurred by the SAIF during fiscal years 1994 through 1998, to the extent of the availability of appropriated funds. In addition, at any time before the end of the 2-year period beginning on the date of the termination of the RTC, the Treasury is to provide out of funds appropriated to the RTC but not expended, such amounts as are needed by the SAIF and are not needed by the RTC. To obtain funds from either of these sources, however, certain certifications must be made to the Congress by the Chairman of the FDIC. FDI Act sections 11(a)(6)(D), (E) and (J). Among these, the Chairman must certify that the Board has determined that:

(1) SAIF members are unable to pay additional semiannual assessments at the rates required to cover losses and to meet the repayment schedule for any amount borrowed from the Treasury for insurance purposes under the FDIC's line of credit without adversely affecting the SAIF members' ability to raise capital or to maintain the assessment base; and

(2) An increase in assessment rates for SAIF members to cover losses or meet any repayment schedule could reasonably be expected to result in greater losses to the Government.

It may require extremely grave conditions in the thrift industry in order for the FDIC to certify that raising SAIF assessments would result in increased losses to the Government. Moreover, these funds cannot be used to capitalize the fund, that is, to provide an insurance reserve, which was the original purpose of requiring a 1.25 reserve ratio.

The RTC's resolution activities and the thrift industry's substantial reduction of troubled assets in recent years have resulted in a relatively sound industry as the SAIF assumed resolution responsibility. However, with a balance of $3.1 billion, the SAIF does not have a large cushion with which to absorb the costs of thrift failures. The FDIC has significantly reduced its projections of failed-thrift assets for the next two years, but the failure of a single large institution or several sizeable institutions or an economic downturn leading to higher than anticipated losses could render the fund insolvent. The FDIC's loss projections for the SAIF are discussed in more detail below.

C. Condition and Performance of SAIF-Member Institutions [5]

SAIF members earned $1.4 billion in the second quarter of 1995, compared to $1.2 billion in the first quarter. Average returns on assets (0.73 percent) and equity (9.23 percent) both increased from first-quarter levels, but SAIF members' average returns remain well below those of BIF members (1.14 percent ROA and 14.25 percent ROE). Despite a slight rise in loss provisions (up 1 percent), asset quality remains strong. Noncurrent loans and foreclosed real estate both declined from first-quarter levels, reducing the ratio of troubled assets to total assets from 1.18 percent to 1.12 percent. Reserve coverage of noncurrent loans improved slightly, from 84 cents for each dollar of noncurrent loans to 85 cents, and the equity-to-assets ratio also rose, from 7.88 percent on March 31 to 8.02 percent on June 30. SAIF members were slightly less reliant on deposits, which comprised 77.9 percent of their liabilities on June 30, down from 78.2 percent in the first quarter.

As of June 30, 1995, there were 1,774 members of the SAIF, including 1,696 savings institutions and 78 commercial banks. On this date, there were 54 SAIF-member ''problem'' institutions with total assets of $30 billion, compared to 73 institutions with $59 billion a year earlier. Two SAIF-member thrifts, with total assets of $456 million, failed during the first half of 1995. No SAIF members have failed since July 1, when the SAIF assumed resolution responsibility from the RTC.

A discussion of the improving condition of the SAIF-member thrift industry must be tempered by the higher risks the SAIF faces relative to the BIF. The SAIF has fewer members among which to spread risk and also has greater risks from geographic and product concentrations. The eight largest holders of SAIF-insured deposits, with a combined 18.5 percent of such deposits, all operate predominantly in California. By contrast, the eight largest holders of BIF-insured deposits operate in five different states and hold 10 percent of all BIF-insured deposits. The assets of SAIF members are heavily concentrated in residential real estate, largely due to statutory requirements that must be met to realize certain income tax benefits. While these investments entail relatively little credit risk, SAIF members generally are more exposed to interest-rate risk than BIF members.

D. Impact of a Premium Differential

The BIF achieved its statutorily required minimum reserve ratio of 1.25 percent during the second quarter of 1995, enabling the Board to lower BIF assessment rates. On August 8, 1995, the Board adopted an assessment rate schedule for the BIF ranging from 4 to 31 basis points, compared to a range of 23 to 31 basis points under the earlier BIF schedule and the current SAIF schedule. The Board has decided to decrease BIF rates further, to a range of 0 to 27 basis points, based on the continuing strength of the commercial banking industry and low near-term loss expectations. A notice concerning the BIF assessment rate schedule is published elsewhere in this Federal Register.

Under the current BIF and SAIF assessment rate schedules, average SAIF rates are 23 basis points higher than average BIF rates. It is likely that for the next seven years SAIF rates will remain significantly higher than BIF rates, until the SAIF is capitalized. After capitalization, SAIF rates will continue to be at least 11 basis points higher until the FICO bonds mature in 2017 to 2019, assuming the Board sets SAIF assessment rates to cover FICO's needs. If BIF members pass along most of their assessment savings to their customers, SAIF members may be forced to pay more for deposits or charge less for

[4] The FICO has an annual call on up to the first $793 million in SAIF assessments until the year 2017, with decreasing calls for two additional years thereafter. With interest credited for early payment, the actual annual draw is expected to approximate $780 million.

[5] Excluding one self-liquidating savings institution and RTC conservatorships. The final RTC conservatorship was resolved during the second quarter, prior to June 30.