loans to remain competitive. For SAIF members, this could result in reduced earnings and an impaired ability to raise funds in the capital markets. An analysis of a five-year time span suggests that any increase in failures attributable solely to an average 23-basis point differential is likely to be sufficiently small as to be manageable by the SAIF under current interest-rate and asset-quality conditions. The analysis also indicates that under harsher than assumed interest-rate and asset-quality conditions, these economic factors would have a significantly greater effect on SAIF-member failure rates than would a 23-basis point premium differential by itself. Among the weakest SAIF members, the differential could be as high as 31 basis points, possibly resulting in competitive pressures that cause additional failures. However, analysis showed that, apart from institutions that have already been identified by the FDIC's supervisory staff as likely failures, the wider spread is likely to have a minimal impact in terms of additional failures.

Nevertheless, the Board recognizes that a premium differential between BIF- and SAIF-insured institutions is likely to increase competitive pressures on thrifts and impede their ability to generate capital both internally and externally.[6] The Board recognizes that an ongoing premium disparity of 23 basis points provides powerful incentives to reduce SAIF-assessable deposits. This could be readily accomplished in a number of ways, with implications both for the ability of SAIF members to fund FICO interest payments, discussed in the following section, and for the structural soundness of the SAIF. A sharp decline in membership and the assessment base would also render the SAIF less effective as a loss-spreading mechanism for insurance purposes by exacerbating the concentration risks the fund already faces.

*E. The Ability of the SAIF to Fund FICO*

Under law, SAIF assessments paid by BIF-member Oakar banks are deposited in the SAIF and are not subject to FICO draws.[7] Further, SAIF assessments paid by any former savings association that (i) Has converted from a savings association charter to a bank charter, and (ii) remains a SAIF member in accordance with section 5(d)(2)(G) of the FDI Act (12 U.S.C. 1815(d)(2)(G)) (a so-called ''Sasser'' bank), are likewise not subject to assessment by FICO.[8] On June 30, 1995, BIF-member Oakar banks held 27.8 percent of the SAIF assessment base, and SAIF-member Sasser banks held an additional 7.5 percent (see Table 3).

TABLE 3.—PERCENTAGE DISTRIBUTION OF THE SAIF ASSESSMENT BASE

| | Available to FICO | Not available to FICO | | | Total |
|---|---|---|---|---|---|
| | | Oakar | Sasser | Subtotal | |
| 12/89 | 99.8 | 0.2 | 0.0 | 0.2 | 100.0 |
| 12/90 | 95.8 | 3.9 | 0.3 | 4.2 | 100.0 |
| 12/91 | 89.9 | 8.7 | 1.5 | 10.1 | 100.0 |
| 12/92 | 85.9 | 10.3 | 3.8 | 14.1 | 100.0 |
| 12/93 | 74.7 | 19.4 | 5.9 | 25.3 | 100.0 |
| 12/94 | 67.3 | 25.4 | 7.3 | 32.7 | 100.0 |
| 6/95 | 64.7 | 27.8 | 7.5 | 35.3 | 100.0 |

While the pace of Oakar acquisitions slowed as RTC resolution activity wound down, Oakar acquisitions may continue and become an even greater proportion of the SAIF assessment base.[9] This has the potential result of the SAIF having insufficient assessments to cover the FICO obligation at current assessment levels. The rate of Sasser conversions is difficult to predict and is partially dependent on state laws, but any future conversions would also decrease the proportion of SAIF assessment revenues available to FICO.

In addition to the growth of the Oakar/Sasser portion of the SAIF assessment base, the ability of the SAIF to fund FICO interest payments will be adversely affected by the premium differential. Despite the current moratorium on the transfer of deposits between funds, many alternatives are available to SAIF-insured institutions seeking to reduce their SAIF-assessable deposits.[10] These institutions could decrease their SAIF assessments by shifting their funding to nondeposit liabilities, such as Federal Home Loan Bank advances and reverse repurchase agreements; by securitizing assets; or by changing business strategies, such as choosing to become a mortgage bank. Lastly, SAIF-insured institutions and their parent companies could structure affiliate relationships that facilitate the ''migration'' of deposits from a SAIF-insured institution to a BIF-insured affiliate. At least a dozen large organizations have already filed applications seeking to establish affiliate relationships for this apparent purpose. Moreover, more than 100 bank and thrift holding companies with both BIF- and SAIF-member affiliates already have the means in place.

These strategies to reduce reliance on SAIF-insured deposits could rapidly deplete the SAIF assessment base to the point where the assessment base is not large enough to generate sufficient revenue to cover the FICO obligation. This would occur with a 20 percent reduction in the current SAIF assessment base, and it is not unreasonable to expect a decline of that magnitude.

[6] *See The Condition of the BIF and the SAIF and Related Issues*, Testimony of Ricki Helfer, Chairman, FDIC, before the Subcommittee on Financial Institutions and Consumer Credit, Committee on Banking and Financial Services, U.S. House of Representatives, Attachment C entitled ''Analysis of Issues Confronting the Savings Association Insurance Fund,'' March 23, 1995.

[7] See Notice of FDIC General Counsel's Opinion No. 7, 60 FR 7055 (Feb. 6, 1995).

[8] *Id.*

[9] SAIF-assessable deposits held by BIF-member Oakar banks will continue to grow at the same rate as the Oakar bank's overall deposit base. Under section 5(d)(3) of the FDI Act, as amended by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), such deposits are adjusted annually by the acquiring institution's overall deposit growth rate (excluding the effects of mergers or acquisitions).

[10] *The Condition of the SAIF and Related Issues*, Testimony of Ricki Helfer, Chairman, FDIC, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Attachment A entitled ''The Immediacy of the Savings Association Insurance Fund Problem,'' July 28, 1995. *The Condition of the SAIF and Related Issues*, Testimony of Ricki Helfer, Chairman, FDIC, before the Subcommittee on Financial Institutions and Consumer Credit, Committee on Banking and Financial Services, U.S. House of Representatives, Attachment A entitled ''The Immediacy of the Savings Association Insurance Fund Problem,'' August 2, 1995.