With two insurance funds providing essentially the same product at significantly different prices, it must be expected that purchasers will seek the lower price. Attempts to control this behavior through legislation or regulation are likely to be ineffective and may only result in companies finding less efficient means. A legislated reversal of the Oakar/Sasser exemption would only defer a FICO shortfall because the existence of a significant, prolonged premium differential is likely to result in continued erosion of the SAIF assessment base.

F. Failed-Asset Estimates for the SAIF

Among the factors that affect the ability of the SAIF to capitalize and to meet the FICO assessment are the number of thrift failures and the dollar amount of failed assets going forward.

Estimates of failed-institution assets are made by the FDIC's interdivisional Bank and Thrift Failure Working Group. In September 1995, the Working Group estimated failed thrift assets of $50 million for the fourth quarter of 1995, $1 billion for 1996 and $4.5 billion for the first nine months of 1997. For loss projections beyond September 1997, the assumed failed-asset rate for the SAIF was 22 basis points, or about $2 billion per year.

In the FDIC's projections, banks and thrifts were assumed to face similar longer-run loss experience. The BIF's historical average failed-asset rate from 1974 to 1994 was about 45 basis points. However, a lower failure rate than the recent historical experience of the BIF was assumed because the thrift industry is relatively sound following the RTC's removal of failing institutions from the system, and the health and performance of the remaining SAIF members has improved markedly. As of June 30, 1995, 86 percent of all SAIF-member institutions were in the best risk classification of the FDIC's risk-related premium matrix.

One of the purposes of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) was to minimize losses to the insurance funds. FDICIA increased regulatory oversight and emphasized capital. Specifically, FDICIA requires the closing of failing institutions prior to the full depletion of their capital, limits riskier activities by institutions that are less than adequately capitalized, and establishes audit standards and statutory time frames for examinations. The law also requires the implementation of risk-related assessments, which have provided effective incentives for institutions to achieve and maintain the highest capital and supervisory standards. In light of these provisions, the high levels of thrift failures and insurance losses experienced over the past decade must be tempered when considering the industry's near-term future performance.

G. Projections for the SAIF

The FDIC currently projects that, under reasonably optimistic assumptions, the SAIF is not likely to reach the statutorily mandated DRR of 1.25 percent until 2002. Also, projections indicate the fund will not encounter problems meeting the FICO obligation through 2004.

It is important to note that the baseline assumptions underlying these projections foresee shrinkage in the non-Oakar portion of the SAIF assessment base of 2 percent per year. If thrifts react aggressively to the premium differential and reduce their SAIF-assessable deposits, as discussed in Section IV.E, substantially greater shrinkage may occur. Under higher rates of shrinkage, the SAIF is likely to capitalize prior to 2002 because a lower level of insured deposits would require a smaller fund to meet the DRR; however, FICO interest payments could be jeopardized within a year or two.

As stated earlier, the Board has the authority to reduce SAIF assessment rates to a minimum average of 18 basis points until January 1, 1998, at which time the average rate would rise to 23 basis points until capitalization occurs. Projections made under this scenario (and using the other baseline assumptions) indicate that the SAIF would capitalize in 2005, or three years later than under the existing rate schedule. Perhaps more importantly, reduction of the SAIF assessment rate to 18 basis points is expected to cause a FICO shortfall in 1996.

IV. Suggested Legislative Initiatives

Congress is considering a number of legislative proposals to resolve the difficulties facing the SAIF. Most of these proposals are intended to bring about the capitalization of the SAIF early in 1996 and expand the assessment base for the FICO obligation. Pending enactment of a comprehensive, legislative resolution to the difficulties facing the SAIF, however, the FDIC must comply with current statutory mandates.

As discussed above, the law provides that if the reserve ratio is less than the DRR, the Board must set semiannual assessments for SAIF members to increase the reserve ratio to the DRR. FDI Act section 7(b)(2)(A)(i). In setting SAIF assessments to achieve and maintain the current DRR of 1.25 percent, the Board must consider the SAIF's expected operating expenses, case resolution expenditures and income, the effect of assessments on members' earnings and capital, and any other factors that the Board may deem appropriate. FDI Act section 7(b)(2)(D). Given the uncertainty underlying the current legislative process and the range of possible solutions, it would be inappropriate to base the assessment rate for the first semiannual period of 1996 on what Congress may or may not do. Should legislation affecting the SAIF finally be enacted, the FDIC will promptly consider its impact and take any action deemed necessary or appropriate regarding assessment rates in accordance with the new legislative mandates.

V. Board Resolution

For the reasons outlined above, the Board has adopted a Resolution to retain the existing assessment rate schedule applicable to SAIF-member institutions for the first semiannual assessment period of 1996. The text of the Resolution is set out below.

Resolution

Whereas, section 7(b) of the Federal Deposit Insurance Act (''FDI Act'') requires the Board of Directors (''Board'') of the Federal Deposit Insurance Corporation (''FDIC'') to establish by regulation a risk-based assessment system; and

Whereas, section 7(b) of the FDI Act requires the Board to set semiannual assessments for Savings Association Insurance Fund (''SAIF'') members to maintain the reserve ratio of SAIF at the designated reserve ratio (''DRR'') or, if the reserve ratio is less than the DRR, to increase the reserve ratio to the DRR; and

Whereas, the DRR for the SAIF is currently 1.25 percent of estimated insured deposits, the minimum level permitted by the FDI Act; and

Whereas, section 7(b) further requires that, in setting SAIF assessments to achieve and maintain the reserve ratio of SAIF at the DRR, the Board consider the following factors: (1) Expected operating expenses; (2) case resolution expenditures and income; (3) the effect of assessments on members' earnings and capital; and (4) any other factors the Board may deem appropriate; and

Whereas, the Board has considered the factors specified in the FDI Act, as reflected in the attached Federal Register notice document; and

Whereas, Part 327 of the rules and regulations of the FDIC, 12 C.F.R. Part 327, entitled ''Assessments,'' prescribes