The FDIC's Legal Division has opined that SAIF assessments paid by BIF-member Oakar banks should remain in the SAIF and are not subject to FICO draws.[3] Further, the Legal Division has opined that 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 draws by FICO.[4] On September 30, 1994, BIF-member Oakar banks held 23.3 percent of the SAIF assessment base (see Table 4), and SAIF-member Sasser banks held an additional 6.9 percent. While the pace of Oakar acquisitions is likely to slow substantially as RTC resolution activity winds down in 1995, Oakar deposits may continue to grow at the same rate as BIF-member deposits and become a greater proportion of the SAIF assessment base.[5] This has the potential result of SAIF's having insufficient assessments to cover the FICO obligation. 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. These factors are considered in the projections of SAIF's recapitalization in section III.

TABLE 4.—SAIF-INSURED DEPOSITS HELD BY BIF-MEMBER OAKAR BANKS AS A PERCENT OF SAIF MEMBER DOMESTIC DEPOSITS*

Year	Percent
1991	7.5
1992	9.7
1993	18.4
9/94	23.3

*End-of-period figures; domestic deposits are adjusted for Oakar deposits.

II. Condition and Performance of SAIF-Member Institutions

SAIF-member institutions numbered 1,869 on September 30, 1994, including 1,794 thrift institutions and 75 commercial banks.[6] While the total number of institutions is down from year-end 1993, there is evidence of a growing industry. For the first three quarters of 1994, these institutions increased their total assets by $6.8 billion (0.9 percent) based on loan growth of $6.3 billion. Total capital grew at an even faster pace for the nine months, raising the equity-to-assets ratio to 7.90 percent from 7.74 percent. The industry continued to pare troubled assets during 1994. Noncurrent loans and other real estate owned declined from 1.91 percent of total assets at the beginning of 1994 to 1.43 percent by September 30.

The industry earned a return on assets of 0.62 percent for the first three quarters of 1994. While this is less than the ROA of 0.72 percent earned in 1993, the earlier year included large one-time accounting gains. Also, some institutions incurred large restructuring charges in 1994 in order to dispose of troubled assets, which has positioned them for higher profits in subsequent periods. Earnings in 1994 were hampered by smaller net interest margins, which fell from 3.35 for all of 1993 to 3.24 for the first nine months of 1994. In the rising interest-rate environment, institutions' funding costs rose faster than asset yields, although institutions with higher proportions of adjustable-rate mortgages should be able to reprice a portion of these loans within six months.

This discussion has focused on the improving condition of the SAIF-member thrift industry, but any such discussion must mention the relatively weak economic conditions still confronting a large segment of the industry. Twenty-three percent of all SAIF member's total assets are concentrated in the nation's seven largest thrift institutions, all of which are headquartered in California. This state, in general, has lagged behind most of the nation in recovering from the most recent recession, and many California thrifts have significant exposure in the weakest areas of southern California. Additionally, a few large institutions have raised supervisory concerns due to low earnings and relatively high levels of risk in their loan portfolios. Consequently, despite the improving health of the thrift industry, the SAIF still faces significant risk relative to the fund's current reserve level.

The current assessment rate schedule for SAIF-member institutions has a spread of 8 basis points from the lowest rate to the highest rate, dependent on supervisory factors and capitalization. A proposed assessment rate schedule for BIF-member institutions would increase the spread for BIF members from the current 8 basis points to 27 basis points. This would be accomplished by maintaining the current maximum rate of 31 basis points and dropping the minimum, most favorable rate to 4 basis points. Thus, the weakest BIF members would incur no additional deposit insurance cost. In order to apply a similar 27-basis point spread to SAIF members, it would be necessary to raise the highest SAIF assessment rate to 45 to 50 basis points (based on a lowest rate of 18 to 23 basis points). Because 85 percent of SAIF members would continue to pay the lowest rate, the revenue benefit of a 27-basis point spread would be limited. However, a spread of that magnitude could have significant adverse consequences for the SAIF by greatly increasing expenses of its weakest members and, in all likelihood, causing additional failures.

III. New Projections for the SAIF

In November 1994, the FDIC's interdivisional Bank and Thrift Failure Working Group (Working Group) estimated failed SAIF-insured institution assets at $3 billion for 1995 and $2 billion for 1996. The 1995 estimate of $3 billion is based on the FDIC Division of Supervision's projected failure of specific institutions that likely would occur in the second half of the year, when SAIF assumes resolution responsibility from the RTC. The 1995 and 1996 estimates were used in updating the Division of Research and Statistics' projections of failed thrift assets, the fund balance and reserve ratios.

The updated projection indicates the SAIF reserve ratio will reach 1.25 percent in 2002, which is unchanged from the previous projection. Also, this projection indicates the fund will not encounter problems meeting the FICO obligation through 2012, the last year of the projection. The results are shown in Table 5.

The following assumptions were used:

- Failed-institution assets are based on the Working Group's estimates for 1995 ($3 billion) and 1996 ($2 billion). Beyond 1996, the assumed failed-asset rate for SAIF will be 22 basis points, or about $2 billion per year. This is lower than the historical loss rate for the BIF because of the thrift industry's current low level of problem assets.
- The nominal loss rate on failed thrift assets will be 13 percent.
- The asset growth rate for SAIF members will be zero, based on the industry's recent experience.
- The SAIF assessment base will continue to shrink, at 2 percent per year. Under current conditions, the

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

[4] *Id.*

[5] Under section 5(d)(3) of the FDI Act, as amended by FDICIA, SAIF-insured deposits acquired by a BIF member are adjusted annually by the acquiring institution's overall deposit growth rate (excluding the effects of other mergers or acquisitions).

[6] Excluding RTC conservatorships and one self-liquidating institution.