FDIC Federal Deposit Insurance Corporation

MEMO

TO: The Board of Directors

FROM: Patrick Mitchell
Director, Division of Insurance and Research

DATE: October 18, 2022

RE: Final Rule on Assessments, Revised Deposit Insurance Assessment Rates

RECOMMENDATION

Staff recommend that the FDIC's Board of Directors (Board) approve the attached final rule and authorize its publication in the *Federal Register*. The final rule increases initial base deposit insurance assessment rate schedules by 2 basis points, beginning the first quarterly assessment period of 2023 (i.e., January 1 through March 31, 2023). The increase in assessment rate schedules is intended to increase the likelihood that the reserve ratio will reach the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028, consistent with the Restoration Plan, as amended by the Board on June 21, 2022, (Amended Restoration Plan).[1]

While insured deposit growth showed signs of normalizing in the second quarter, aggregate balances remain significantly elevated, relative to pre-pandemic levels. Insured deposits increased 4.3 percent over the last year, a growth rate that is higher than the rate of insured deposit growth assumed in both scenarios in the analysis supporting the proposal and this final rule. Thus, significant risk remains that the Deposit Insurance Fund (DIF or fund) may not reach 1.35 percent by the statutory deadline. Reaching the statutory minimum in advance of the statutory deadline strengthens the fund so that it can better withstand unexpected losses and reduces the likelihood of pro-cyclical assessments.

The increase in assessment rate schedules is intended to support growth in the DIF and to reduce the likelihood that the FDIC would need to consider a potentially pro-cyclical assessment rate increase when banking and economic conditions may be less favorable. The banking industry faces significant downside risks. Future economic and banking conditions remain uncertain due to high inflation, rising interest rates, slowing economic growth, and geopolitical uncertainty. Higher interest rates may also erode real estate and other asset values as well as hamper borrowers' loan repayment ability. Any of these uncertainties present challenges and could have longer-term effects on the condition and performance of the economy and the banking industry. In staff's view, now is a reasonable time for a modest rate increase, while the banking industry is strong, as it

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[1] Under the Federal Deposit Insurance Act (FDI Act), a restoration plan must restore the reserve ratio to at least 1.35 percent within 8 years of establishing the restoration plan, absent extraordinary circumstances. *See* 12 U.S.C. 1817(b)(3)(E). The reserve ratio is calculated as the ratio of the net worth of the DIF to the value of the aggregate estimated insured deposits at the end of a given quarter. *See* 12 U.S.C. 1813(y)(3). *See also* 87 FR 39518 (July 1, 2022).

Concur:

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Harrel M. Pettway
General Counsel

continues to report favorable credit quality, earnings, and capital levels, and is experiencing a prolonged period without bank failures.

Growing the DIF would also increase the likelihood of the DIF remaining positive through potential future periods of significant losses due to bank failures, consistent with the FDIC's long-term fund management plan and goal of a 2 percent reserve ratio.[2] Therefore, the new assessment rate schedules adopted as part of this final rule would remain in effect unless and until the reserve ratio meets or exceeds 2 percent, absent further Board action. Pursuant to the Federal Deposit Insurance Act (FDI Act), staff are separately and concurrently recommending maintaining the Designated Reserve Ratio (DRR) at 2 percent for 2023.[3]

BACKGROUND

Legal Authority and Policy Objectives

Staff recommend that the Board, under the FDIC's general rulemaking authority in Section 9 of the FDI Act, and its specific authority under Section 7 of the FDI Act to set assessments, adopt a final rule to increase initial base deposit insurance assessment rate schedules by 2 basis points, effective January 1, 2023, and beginning the first quarterly assessment period of 2023 (i.e., January 1 through March 31, 2023).[4]

The increase in initial base assessment rate schedules will increase assessment revenue in order to rebuild the DIF, which is used to pay deposit insurance in the event of failure of an insured depository institution (IDI), and is intended to achieve complementary objectives.[5]

Most immediately, the increase in assessment rate schedules is intended to increase the likelihood that the reserve ratio will reach the statutory minimum of 1.35 percent within the deadline set by statute, consistent with the Amended Restoration Plan.[6] Once the DIF reaches 1.35 percent, the FDIC will no longer operate under a restoration plan. Any subsequent decline in the reserve ratio below the statutory minimum would, therefore, require the Board to establish a new restoration plan with an additional eight years to restore the reserve ratio. Alternatively, in the event that the industry experiences a downturn before the FDIC has exited its current Restoration Plan, the FDIC might have to consider larger assessment increases to meet the statutory requirement in a more compressed timeframe and under less favorable conditions.

Additionally, the increase in assessment rate schedules would support growth in the DIF in progressing toward the 2 percent DRR. Therefore, the assessment rate schedules adopted as part of this final rule will remain in effect unless and until the reserve ratio meets or exceeds 2 percent, absent further Board action. Progressively lower assessment rate schedules will become effective when the reserve ratio exceeds 2 percent and 2.5 percent.[7]

This continued growth in the DIF is intended to reduce the likelihood that the FDIC would need to consider a potentially pro-cyclical assessment rate increase, and to increase the likelihood of the DIF remaining positive through potential future periods of significant losses due to bank failures, consistent with the FDIC's

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[2] See 75 FR 66273 (Oct. 27, 2010) and 76 FR 10627 (Feb. 25, 2011).
[3] Section 7(b)(3)(A) of the FDI Act, 12 U.S.C. § 1817(b)(3)(A).
[4] *See* 12 U.S.C. 1817 and 1819.
[5] As used in this memo and the attached final rule, the term ''bank'' is synonymous with the term ''insured depository institution'' as it is used in section 3(c)(2) of the FDI Act, 12 U.S.C. 1813(c)(2).
[6] *See* also 87 FR 39518 (July 1, 2022).
[7] *See* 12 CFR 327.10(c) and (d).

long-term fund management plan.[8] A sufficiently large fund is a necessary precondition to maintaining a positive fund balance during a banking crisis and allowing for long-term, steady assessment rates. Accomplishing these objectives will continue to ensure public confidence is maintained in federal deposit insurance.

Restoration Plan

Extraordinary growth in insured deposits during the first and second quarters of 2020 caused the DIF reserve ratio to decline below the statutory minimum of 1.35 percent.[9] On June 30, 2020, the reserve ratio was 1.30 percent. The FDI Act requires that the Board adopt a restoration plan when the DIF reserve ratio falls below the statutory minimum of 1.35 percent or is expected to within 6 months.[10] On September 15, 2020, the Board adopted a Restoration Plan to restore the DIF reserve ratio to at least 1.35 percent by September 30, 2028.[11]

In its June 21, 2022, semiannual update to the Board, staff projections of the reserve ratio under different scenarios indicated that the reserve ratio was at risk of not reaching 1.35 percent by September 30, 2028, the end of the statutory 8-year period.[12] The scenarios were based on data and analysis updated through March 31, 2022, the most recent data available at the time of the report to the Board, and incorporated different rates of insured deposit growth and weighted average assessment rates, including sustained elevated insured deposit balances and lower assessment rates than previously anticipated. On June 21, 2022, the Board approved the Amended Restoration Plan, which reflects an increase in initial base deposit insurance assessment rate schedules of 2 basis points, beginning the first quarterly assessment period of 2023.[13]

Under the Amended Restoration Plan, the FDIC will update its analysis and projections for the fund balance and reserve ratio at least semiannually and, if necessary, recommend modifications to the Amended Restoration Plan.

Designated Reserve Ratio

The FDI Act requires that the Board designate a reserve ratio for the DIF and publish the DRR before the beginning of each calendar year.[14] The Board must set the DRR in accordance with its analysis of certain statutory factors: risk of losses to the DIF; economic conditions generally affecting insured depository institutions (IDIs); preventing sharp swings in assessment rates; and any other factors that the Board determines to be appropriate.[15]

In 2010, the FDIC proposed and later adopted a comprehensive, long-term management plan for the DIF with the following goals: (1) reduce the pro-cyclicality in the existing risk-based assessment system by allowing moderate, steady assessment rates throughout economic and credit cycles; and (2) maintain a positive fund balance even during a banking crisis by setting an appropriate target fund size and a strategy for

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[8] *See* 75 FR 66273 (Oct. 27, 2010) and 76 FR 10672 (Feb. 25, 2011).
[9] *See* 12 U.S.C. 1817(b)(3)(B).
[10] *See* 12 U.S.C. 1817(b)(3)(E).
[11] *See* 85 FR 59306 (Sept. 21, 2020).
[12] *See* FDIC Restoration Plan Semiannual Update, June 21, 2022. Available at *https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-sum-b-mem.pdf.*
[13] *See* 87 FR 39518 (July 1, 2022).
[14] Section 7(b)(3)(A) of the FDI Act, 12 U.S.C. 1817(b)(3)(A). The DRR is expressed as a percentage of estimated insured deposits.
[15] Section 7(b)(3)(C) of the FDI Act, 12 U.S.C. 1817(b)(3)(C).

assessment rates and dividends.[16] Based on the FDIC's experience through two banking crises, the analysis concluded that a long-term moderate, steady assessment rate of 5.29 basis points would have been sufficient to prevent the fund from becoming negative during the crises.[17] The FDIC also found that the fund reserve ratio would have had to exceed 2 percent before the onset of the last two crises to achieve these results.

The FDIC's comprehensive, long-term fund management plan combines the moderate, steady assessment rate with a DRR of 2 percent. The Board set the DRR at 2 percent in 2010, and following consideration of the statutory factors, it has voted annually since then to maintain the 2 percent DRR. Staff are separately and concurrently recommending maintaining the DRR at 2 percent for 2023.[18]

The DRR was established as part of a plan to maintain a positive DIF balance, even during a banking crisis, by allowing the fund to grow sufficiently large during times of favorable banking conditions. Additionally, in lieu of dividends, the long-term plan prescribes progressively lower assessment rate schedules that will become effective when the reserve ratio exceeds 2 percent and 2.5 percent.[19]

Risk-Based Deposit Insurance Assessments

Pursuant to Section 7 of the FDI Act, the FDIC has established a risk-based assessment system through which it charges all IDIs an assessment amount for deposit insurance.[20]

Under the FDIC's regulations, an IDI's assessment is equal to its assessment base multiplied by its risk-based assessment rate.[21] Generally, an IDI's assessment base equals its average consolidated total assets minus its average tangible equity.[22] An IDI's assessment rate is determined each quarter based on supervisory ratings and information collected on the Consolidated Reports of Condition and Income (Call Report) or the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002), as appropriate. An IDI's assessment rate is calculated using different methods based on whether the IDI is a small, large, or highly complex institution.[23]

The Proposed Rule

On June 21, 2022, the Board adopted a notice of proposed rulemaking (the proposed rule, or proposal) to increase initial base deposit insurance assessment rate schedules uniformly by 2 basis points, beginning the first quarterly assessment period of 2023.[24] The proposed change was intended to increase assessment revenue in order to raise the reserve ratio to the statutory minimum threshold of 1.35 percent within 8 years of the

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[16] *See* 75 FR 66272 (Oct. 27, 2010) and 76 FR 10672 (Feb. 25, 2011).
[17] *See* 75 FR at 66273 and 76 FR at 10675.
[18] *See* 75 FR 79286 (Dec. 20, 2010), codified at 12 CFR 327.4(g).
[19]*See* 75 FR at 66273 and 75 FR at 79287.
[20] *See* 12 U.S.C. 1817(b).
[21] *See* 12 CFR 327.3(b)(1).
[22] *See* 12 CFR 327.5.
[23] *See* 12 CFR 327.16(a) and (b). For assessment purposes, a small bank is generally defined as an institution with less than $10 billion in total assets, a large bank is generally defined as an institution with $10 billion or more in total assets, and a highly complex bank is generally defined as an institution that has $50 billion or more in total assets and is controlled by a parent holding company that has $500 billion or more in total assets, or is a processing bank or trust company. As used in this rule, the term ''small bank'' is synonymous with the term ''small institution'' and the term ''large bank'' is synonymous with the term ''large institution'' or ''highly complex institution,'' as the terms are defined in 12 C.F.R. 327.8(e), (f), and (g), respectively.
[24] *See* 87 FR 39388 (July 1, 2022).

Restoration Plan's initial establishment, as required by statute, and consistent with the Amended Restoration Plan, and to support growth in the DIF in progressing toward the 2 percent DRR. In lieu of dividends, the progressively lower assessment rate schedules currently in the regulation would remain unchanged and would come into effect without further action by the Board when the fund reserve ratio at the end of the prior assessment period reaches 2 percent and 2.5 percent, respectively.[25] The FDIC did not propose changes to the rate schedules that come into effect when the reserve ratio reaches 2 and 2.5 percent.

COMMENTS RECEIVED ON THE PROPOSED RULE

The comment period for the proposed rule ended on August 20, 2022. The FDIC received a total of 171 comment letters. Of these, 102 were from IDIs or holding companies of IDIs, 10 were from trade associations, one was from members of Congress, and 58 were from other interested parties, primarily individuals affiliated with community banks.[26] While many commenters expressed support for the continued strength and resilience of the DIF, the vast majority of the comment letters expressed concern about the burden of the proposed increase in assessment rate schedules of 2 basis points on the banking industry, particularly community banks. Nearly half of all commenters stated that the proposed increase in assessment rate schedules of 2 basis points is unnecessary for the reserve ratio to reach the statutory minimum of 1.35 percent by the statutory deadline, with most disagreeing with one or more of the assumptions underlying the projections that informed the proposal. Many suggested alternatives to adjust, delay or rescind the proposed increase in assessment rate schedules of 2 basis points, or implement a risk- or size-based approach to increasing assessment rates. Two commenters were generally supportive, in recognition of the need to restore the reserve ratio to the statutory minimum and to reach the long-term goal of a 2 percent DRR.

As described in the section on *Capital and Earnings Analysis and Expected Effects* below, for the industry as a whole, staff estimate that a uniform increase in assessment rate schedules of 2 basis points would decrease Tier 1 capital by an estimated 0.1 percent, but would not directly result in any institutions becoming undercapitalized or critically undercapitalized. Staff also estimate that a uniform increase in assessment rate schedules of 2 basis points would reduce income slightly by an average of 1.2 percent, which includes an average of 1.0 percent for small banks and an average of 1.3 percent for large and highly complex institutions. The increase in assessment rate schedules is projected to have an insignificant effect on institutions' capital levels and is unlikely to have a material effect relative to income for almost all institutions.

The banking industry continues to report favorable credit quality, earnings, and capital levels, supporting its ability to meet the country's banking needs while navigating the challenges presented by inflationary pressures, rising interest rates, and the end of pandemic support programs for borrowers. The banking industry has reported strong earnings in recent quarters, remained resilient through the second quarter of 2022 despite the extraordinary challenges of the pandemic, and is well positioned to absorb a modest increase in assessment rate schedules of 2 basis points.

As described in the section on *Projections for the Fund Balance and Reserve Ratio* below, applying the same assumptions used in the proposal but using data through June 30, 2022, the latest data available at the time of the report to the Board, staff continue to project that, absent an increase in assessment rates, the reserve ratio is at risk of not reaching the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028.

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[25] *See* 12 CFR 327.10(c) and (d).

[26] *See* comments on the proposal. Available at *https://www.fdic.gov/resources/regulations/federal-register-publications/2022/2022-assessments-revised-deposit-insurance-assessment-rates-3064-af83.html.* Two late comment letters were received after the comment period closed on August 20, 2022. The views presented in the comment letters are addressed in the relevant sections in the attached final rule.

When the FDIC first established the Restoration Plan in September 2020, the reserve ratio stood at 1.30 percent. The reserve ratio increased in only two out of the eight quarters in which the Restoration Plan has been in place and regressed over that period to 1.26 percent as of June 30, 2022.

The FDIC has a statutory obligation to restore the reserve ratio to the statutory minimum of 1.35 percent within 8 years of establishing the Restoration Plan.[27] Further, the FDIC is neither required nor expected to wait until near the statutory deadline to do so. Reaching the statutory minimum reasonably promptly and in advance of the statutory deadline strengthens the fund so that it can better withstand unexpected losses and reduce the likelihood of pro-cyclical assessments. In staff's view, now is a reasonable time for a modest rate increase, while the banking industry is strong and experiencing a prolonged period without bank failures.

The increase in assessment rate schedules of 2 basis points will bring the average assessment rate close to the moderate steady assessment rate of 5.29 basis points that would have been required in a simulated fund analysis covering the years 1950 through 2010 to maintain a positive DIF balance, through two banking crises.[28] Restoring the fund to its statutory minimum reserve ratio, and continuing to build it towards the 2 percent DRR, reduces the risk that the FDIC would need to consider a larger increase in assessments at a later time when banking and economic conditions may be less favorable and when the industry might least be able to afford it.

Staff carefully considered the comments received on the proposal and continue to hold the view that, on balance, an increase in initial base assessment rate schedules of 2 basis points that would remain in effect unless and until the reserve ratio meets or exceeds 2 percent appropriately balances several considerations, including the goal of reaching the statutory minimum reserve ratio reasonably promptly, accelerating the timeline for achieving a 2 percent DRR, strengthening the fund to reduce the risk that the FDIC would need to consider a potentially pro-cyclical assessment increase in the event of a future downturn or industry stress, and the projected effects on bank earnings at a time when the banking industry is better positioned to absorb a modest increase in assessment rate schedules. Comments received on the proposal are summarized and addressed in further detail in the attached final rule for publication in the *Federal Register*.

DISCUSSION OF THE FINAL RULE

Description of the Final Rule

Staff recommend that the Board, under its general rulemaking authority in Section 9 of the FDI Act, and its specific authority under Section 7 of the FDI Act to set assessments, adopt as final and without change the proposed rule to increase initial base deposit insurance assessment rate schedules uniformly by 2 basis points, beginning the first quarterly assessment period of 2023.[29] Staff recommend that under the final rule, the new assessment rate schedules remain in effect unless and until the reserve ratio meets or exceeds 2 percent, absent further Board action.

Under the final rule, staff recommend retention of the Board's flexibility to adopt higher or lower total base assessment rates without the necessity of further notice-and-comment rulemaking, provided that the Board cannot increase or decrease rates from one quarter to the next by more than 2 basis points, and cumulative increases and decreases cannot be more than 2 basis points higher or lower than the total base assessment rates set forth in the assessment rate schedules.[30] Retention of this flexibility continues to allow the Board to act in a timely manner to fulfill its mandate to raise the reserve ratio, particularly in light of the

[27] *See* 12 U.S.C. 1817(b)(3)(E).
[28] *See* 75 FR 66273 and 76 FR 10675.
[29] *See* 12 U.S.C. 1817 and 1819.
[30] *See* 12 CFR 327.10(f).

uncertainty related to insured deposit growth and the economic outlook. Maintaining the ability to adjust rates within limits without notice-and-comment rulemaking is consistent with the FDIC's well established practice and will allow the FDIC to act expeditiously to adjust rates in the face of constantly changing conditions.

Assessment Rate Schedules Beginning the First Quarterly Assessment Period of 2023

Pursuant to the FDIC's authority to set assessments, under the final rule, the initial and total base assessment rates applicable to established small institutions and large and highly complex institutions set forth in Table 1 below would take effect beginning the first quarterly assessment period of 2023. An institution's total base assessment rate may vary from the institution's initial base assessment rate as a result of possible adjustments for certain liabilities that can increase or reduce loss to the DIF in the event the institution fails.[31] These adjustments do not reflect a change and are consistent with the current assessment regulations.

Table 1 – Total Base Assessment Rate Schedule (After Adjustments)[1] Beginning the First Assessment Period of 2023, Where the Reserve Ratio as of the End of the Prior Assessment Period Is Less Than 2 Percent[2]

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	5 to 18	8 to 32	18 to 32	5 to 32
Unsecured Debt Adjustment[3]	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	2.5 to 18	4 to 32	13 to 32	2.5 to 42

[1] The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.
[2] All amounts are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.
[3] The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 5 basis points will have a maximum unsecured debt adjustment of 2.5 basis points and cannot have a total base assessment rate of lower than 2.5 basis points.

Under the final rule, the rates applicable to established small institutions and large and highly complex institutions in Table 1 above would remain in effect unless and until the reserve ratio meets or exceeds 2 percent, absent further Board action. In lieu of dividends, and pursuant to the FDIC's authority to set assessments, progressively lower initial and total base assessment rate schedules applicable to established small institutions and large and highly complex institutions as currently set forth in 12 CFR 327.10(c) and (d) would come into effect without further action by the FDIC Board when the fund reserve ratio at the end of the prior assessment period reaches 2 percent and 2.5 percent, respectively. Staff are not recommending changes to these progressively lower assessment rate schedules.

Conforming, Technical, and Other Amendments to the Assessment Regulations

Under the final rule and as proposed, staff recommend that the Board adopt conforming amendments

[31] *See* 12 CFR 327.16(e).

in Sections 327.10 and 327.16 of the FDIC's assessment regulations to effectuate the modifications described above. These conforming amendments will ensure that the uniform increase in initial base deposit insurance assessment rate schedules of 2 basis points is properly incorporated into the assessment regulation provisions governing the calculation of an IDI's quarterly deposit insurance assessment. Staff also recommend adoption of additional amendments to update and conform Appendix A to Subpart A of Part 327—Method to Derive Pricing Multipliers and Uniform Amount in accordance with the current assessment regulations. As a technical change, staff recommend rescinding in its entirety Section 327.9—Assessment Pricing Methods, and certain rate schedules in Section 327.10, as such section and rate schedules are no longer in effect.

ANALYSIS

In setting assessment rates, the Board is authorized to set assessments for IDIs in such amounts as the Board may determine to be necessary or appropriate following consideration of certain statutory factors.[32] In setting assessment rates, staff updated the following analysis and projections for the Board's consideration using data as of June 30, 2022, the latest data available at the time of the report to the Board.

Assessment Revenue Needs

Under the Amended Restoration Plan, the FDIC is monitoring deposit balance trends, potential losses, and other factors that affect the reserve ratio. The most recent semiannual update to the Board was provided on June 21, 2022 with data as of March 31, 2022 and the next semiannual update is anticipated for later this year and is expected to cover data as of September 30, 2022.[33] For purposes of this final rule, staff updated analysis and projections using data as of June 30, 2022.

In the second quarter of 2022, slight attrition in insured deposits coupled with positive growth in the DIF balance resulted in a 3 basis point increase in the reserve ratio to 1.26 percent as of June 30, 2022.

While assessment revenue was the primary contributor to growth in the DIF, since the beginning of 2021, the weighted average assessment rate for all IDIs has been consistently below the average of 4.0 basis points when the Restoration Plan was first adopted. The weighted average assessment rate was approximately 3.8 basis points for the assessment period ending June 30, 2022. The DIF has experienced low losses from bank failures, with no banks failing since October 2020. Unrealized losses on available-for-sale securities in the DIF portfolio contributed to a relatively flat DIF balance in the first quarter of 2022 and continued to slow growth in the DIF balance in the second quarter of 2022. As of June 30, 2022, the DIF balance totaled $124.5 billion, up $1.4 billion from one quarter earlier.

While insured deposit growth showed signs of normalizing in the second quarter, aggregate balances remain significantly elevated, relative to pre-pandemic levels. Insured deposits increased 4.3 percent over the last year, a growth rate that is higher than the rate of insured deposit growth assumed in both scenarios in the

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[32] In setting assessment rates, the Board is required by statute to consider:
(i) The estimated operating expenses of the DIF.
(ii) The estimated case resolution expenses and income of the DIF.
(iii) The projected effects of the payment of assessment on the capital and earnings of IDIs.
(iv) The risk factors and other factors taken into account pursuant to section 7(b)(1) of the FDI Act (12 U.S.C. 1817(b)(1)) under the risk-based assessment system, including the requirement under such section to maintain a risk-based system.
(v) Other factors the Board has determined to be appropriate.
Section 7(b)(2)(B) of the FDI Act, 12 U.S.C. 1817(b)(2)(B).
[33] *See* FDIC Restoration Plan Semiannual Update, June 21, 2022. Available at *https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-sum-b-mem.pdf*.

analysis supporting the proposal and this final rule. In recognition that sustained elevated insured deposit balances, lower than anticipated weighted average assessment rates, and other factors have affected the ability of the reserve ratio to return to 1.35 percent before September 30, 2028, and to accelerate the timeline for achieving the long-term goal of a 2 percent DRR, staff recommend that the Board adopt this final rule to increase initial base deposit insurance assessment rate schedules uniformly by 2 basis points. Staff recommend that the new assessment rate schedules under the final rule remain in effect unless and until the reserve ratio meets or exceeds 2 percent.

Deposit Balance Trends

The recent moderation in insured deposit growth rates relative to the first half of 2020 and the first quarter of 2021 was attributable in part to a decline in personal savings as support from direct federal government stimulus programs ended and higher inflation increased nominal consumer spending. In addition, higher interest rates may have caused certain types of deposits to shift into higher-yielding alternatives. Over the last year, insured deposits increased by 4.3 percent, slightly below the pre-pandemic average of 4.5 percent, but in excess of the insured deposit growth rates assumed in both scenarios in the analysis supporting the proposal and this final rule. While recent insured deposit growth rates more closely align with historical averages, these growth rates are applied to a total balance of insured deposits that is still elevated from the pandemic response efforts, further increasing insured deposit balances.

The outlook for insured deposit growth remains uncertain and depends on several factors, including the outlook for consumer spending and incomes. Any unexpected economic weakness or concerns about slower than expected economic growth may cause businesses and consumers to maintain caution in spending and keep deposit levels elevated in order to have the ability to cover expenses on hand or increase precautionary savings. Similarly, unexpected financial market stress could prompt another round of investor risk aversion that could lead to caution on spending and increase savings and insured deposits. On the other hand, prolonged higher inflation may cause consumer spending to remain elevated as consumers pay more for goods and services.

In contrast, tighter monetary policy may inhibit growth of insured deposits in the banking system. Despite the recent increases in the short-term benchmark rate set by the Federal Reserve, most IDIs have little incentive to raise interest rates on deposit accounts and spur deposit growth in the near-term, given the still elevated levels of deposit balances. If competition for deposits remains subdued and rates paid on deposit accounts remain low, depositors may shift balances away from deposit accounts and into higher-yielding alternatives, including money market funds.

More than a year has passed since the period of extraordinary growth in insured deposits prompted by the last round of fiscal stimulus, and while the banking industry reported slight attrition in insured deposits in the second quarter of 2022, aggregate balances remain significantly elevated, as noted above. Insured deposits declined by 0.7 percent in the second quarter of 2022. While this may be indicative of the beginning of slower growth in insured deposits going forward, a decline in the second quarter is consistent with seasonal, quarterly growth in insured deposits, which declined in the second quarter in six out of the last nine years. As a result, the reserve ratio continues to be below the statutory minimum of 1.35 percent and is at risk of not returning to that level by the statutory deadline of September 30, 2028. Staff will continue to closely monitor depositor behavior and the effects on insured deposits through future Restoration Plan semiannual updates.

Case Resolution Expenses (Insurance Fund Losses)

Losses from past and future bank failures affect the reserve ratio by lowering the fund balance. In recent years, the DIF has experienced low losses from IDI failures. On average, four IDIs per year failed between

2016 and 2021, at an average annual cost to the fund of about $208 million.[34] No banks have failed thus far in 2022, marking 23 consecutive months without a bank failure and the eighth year in a row with few or no failures. Based on currently available information about banks expected to fail in the near-term; analyses of longer-term prospects for troubled banks; and trends in CAMELS ratings, failure rates, and loss rates; staff project that failures over the next five years would cost the fund approximately $1.8 billion.

The total number of institutions on the FDIC's Problem Bank List was 40 at the end of the second quarter of 2022, the lowest level since publication of the FDIC's Quarterly Banking Profile began in 1984.[35] Currently, the FDIC expects the number of problem banks to remain at low levels in the near-term.

The banking industry faces significant downside risks. Future economic and banking conditions remain uncertain due to high inflation, rising interest rates, slowing economic growth, and geopolitical uncertainty. Higher interest rates may also erode real estate and other asset values as well as hamper borrowers' loan repayment ability. Any of these uncertainties present challenges and could have longer-term effects on the condition and performance of the economy and the banking industry. Gross domestic product (GDP) growth has weakened in the first half of 2022, contracting in both first and second quarters after expanding 5.7 percent in 2021. Despite the slowdown in growth in the first half of 2022, consumer spending continued to grow, and the labor market remained strong.

However, the economic outlook is weak overall. The September Blue Chip Economic Forecast calls for GDP growth of 1.2 percent in third quarter, 1.6 percent for full year 2022 and 0.6 percent for 2023.[36] Many forecasters increased their odds of a mild recession occurring in 2022 or 2023.[37] The banking industry remained resilient through the second quarter of 2022 despite the extraordinary challenges of the pandemic, and is well positioned to absorb a modest increase in assessment rate schedules of 2 basis points. Given these economic uncertainties, in staff's view, now is a reasonable time to modestly raise rates while the banking industry is strong, rather than to delay and potentially have to consider a larger increase in assessments at a later time when banking and economic conditions may be less favorable.

Operating Expenses and Investment Income

FDIC operating expenses remain steady, while a prolonged period of low investment returns has limited growth in the DIF.

Operating expenses partially offset increases in the DIF balance. Operating expenses have remained steady, ranging between $450 and $475 million per quarter since the Restoration Plan was first adopted in September 2020, and totaling $460 million as of June 30, 2022.

Growth in the fund balance has been limited by a prolonged period of low investment returns on securities held by the DIF. Recently, as a result of the rising interest rate environment and market expectations leading up to the rate increases, the DIF has also experienced elevated unrealized losses on securities. Elevated unrealized losses, coupled with relatively low interest earned on investments, resulted in negative net investment contributions—defined for purposes of this update to include both interest income and unrealized gains or losses—in the fourth quarter of 2021, and the first and second quarters of 2022. Prior to the pandemic

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[34] FDIC, Annual Report 2021, Assets and Deposits of Failed or Assisted Insured Institutions and Losses to the Deposit Insurance Fund, 1934 – 2021, page 190, available at *https://www.fdic.gov/about/financial-reports/reports/2021annualreport/2021-arfinal.pdf*.
[35] "Problem" institutions are institutions with a CAMELS composite rating of "4" or "5" due to financial, operational, or managerial weaknesses that threaten their continued financial viability.
[36] September Blue Chip Economic Forecast.
[37] September Blue Chip Economic Forecast.

between 2015 and 2019, quarterly net investment contributions averaged $322 million, well above the average net investment contributions of $4.5 million from 2020 through mid-2022. Unrealized losses were due to rising yields as market participants reacted to expectations of increased inflation and tighter monetary policy.

Moving into the third quarter of 2022, interest rates have continued to rise and continued unrealized losses could temper fund balance growth. Future market movements may temporarily increase unrealized losses to the extent that market participants have not already priced in these actions or the Federal Reserve takes more aggressive action than is currently expected in fighting inflation. While staff expect that these unrealized losses should eventually be outpaced by higher levels of interest income over the longer-term as future cash proceeds are reinvested at higher rates, the timing of this is uncertain.

Projections for the Fund Balance and Reserve Ratio

In its consideration of increasing assessment rates, staff sought to increase the likelihood that the reserve ratio would reach the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028, and to support growth in the DIF in progressing toward the long-term goal of a 2 percent DRR. With these objectives in mind, staff updated analysis and projections for the fund balance and reserve ratio using data through June 30, 2022, the latest available as of the date of publication, to estimate how changes in insured deposit growth and assessment rates affect when the reserve ratio would reach the statutory minimum of 1.35 percent and the DRR of 2 percent.

Based on this updated analysis, staff continue to project that, absent an increase in assessment rates, the reserve ratio is at risk of not reaching the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028. In estimating how soon the reserve ratio would reach 1.35 percent, staff developed two scenarios that assume different levels of insured deposit growth and average assessment rates, both of which staff view as reasonable based on current and historical data. For insured deposit growth, staff assumed annual growth rates of 4.0 percent and 3.5 percent, respectively. Even with the second quarter decline in insured deposits, annual insured deposit growth was 4.3 percent, exceeding both growth rates assumed in the analysis.

These insured deposit growth rates represent retention of a range of excess insured deposits resulting from the pandemic. The assumption of a 4.0 percent annual growth rate reflects retention of all of the estimated $1.13 trillion of excess deposits in insured accounts, with this amount not contributing to further growth, while the remaining balance of insured deposits continues to grow at the pre-pandemic average annual rate of 4.5 percent.[38] Alternatively, a 3.5 percent annual growth rate assumption reflects banks retaining nearly two-thirds of the estimated excess insured deposits resulting from the pandemic, with this amount not contributing to further growth, while the remaining balance of insured deposits grows at the pre-pandemic average annual rate of 4.5 percent.

The two scenarios also apply different assumptions for average annual assessment rates. The weighted average assessment rate for all banks during 2019, prior to the pandemic, was about 3.5 basis points and rose to 4.0 basis points, on average, during 2020. The weighted average assessment rate for all IDIs was approximately 3.8 basis points for the assessment period ending June 30, 2022. For the scenario in which all excess insured deposits are retained, staff assumed a lower assessment rate of 3.5 basis points, and for the scenario in which some excess insured deposits recede, staff assumed an assessment rate of 4.0 basis points.

Staff updated projections of the date that the reserve ratio would likely reach the statutory minimum of

[38] The estimate of $1.13 trillion of excess insured deposits reflects the amount of insured deposits as of September 30, 2021, in excess of the amount that would have resulted if insured deposits had grown at the pre-pandemic average rate of 4.5 percent since December 31, 2019.

1.35 percent in each scenario, shown in Table 2 below to include one additional quarter of data finalized following the publication of the proposed rule.[39] Under Scenario A, which assumes annual insured deposit growth of 4.0 percent and an average annual assessment rate of 3.5 basis points, staff project that the reserve ratio would reach 1.35 percent in the second quarter of 2034, after the statutory deadline of September 30, 2028.

Table 2 – Scenario Analysis:
Expected Time to Reach a 1.35 Percent Reserve Ratio

	Annual Insured Deposit Growth Rate [Percent]	**Average Annual Assessment Rate [Basis Points]**	**Date the Reserve Ratio Reaches 1.35 Percent**	
			No Change in Annual Average Assessment Rate	**Application of a 2 BPS Increase in Annual Average Assessment Rate (Beginning 1Q 2023)**
Scenario A	4.0	3.5	2Q 2034	4Q 2024
Scenario B	3.5	4.0	4Q 2026	2Q 2024

In Scenario B, which assumed annual insured deposit growth of 3.5 percent and an average annual assessment rate of 4.0 basis points, staff project that the reserve ratio would reach 1.35 percent in the fourth quarter of 2026, only seven quarters before the statutory deadline. Even under these relatively favorable conditions, which assume lower insured deposit growth and a higher average assessment rate than experienced over the last year, the reserve ratio reaches the statutory minimum of 1.35 percent relatively close to the statutory deadline. While staff project that the reserve ratio would reach the statutory minimum before the deadline in this scenario, any number of uncertain factors—including unexpected losses, accelerated insured deposit growth, or lower weighted average assessment rates due to improving risk profiles of institutions—could materialize between now and the fourth quarter of 2026, and easily prevent the reserve ratio from reaching the statutory minimum by the statutory deadline. Updating the analysis incorporated in the proposal to include the latest data available, as of June 30, 2022, had minimal effect on the date the reserve ratio reaches 1.35 percent. Updated analysis reflecting a decline in insured deposits of 0.7 percent resulted in the reserve ratio projections reaching 1.35 percent one quarter earlier under Scenario A, and 2 quarters earlier under Scenario B.

Both scenarios apply assumptions for insured deposit growth and average assessment rates that staff view as reasonable based on current and historical data, and that do not widely differ from each other in magnitude. Actual insured deposit growth and assessment rates could more closely align with one scenario or the other, exceed or fall short of assumptions, or fall in between the two. As described above in the section on *Case Resolution Expenses (Insurance Fund Losses)*, the assumptions, including assumptions related to net investment contributions and losses to the DIF, are subject to uncertainty. If insured deposits grow at a slower rate than assumed, the statutory minimum reserve ratio would be achieved sooner than projected. On the other hand, if insured deposits grow at a faster rate, average assessment rates decline, or losses materialize, the

[39] For simplicity, the analysis shown in Table 2 assumes that: (1) the assessment base grows 4.5 percent, annually; (2) net investment contributions to the deposit insurance fund balance are zero; (3) operating expenses grow at 1 percent per year; and (4) failures for the five-year period from 2022 to 2026 would cost approximately $1.8 billion.

statutory minimum reserve ratio would be achieved later than projected.

Net investment contributions—defined for purposes of this update to include both interest income and unrealized gains or losses—have played a secondary role relative to assessment revenue in overall DIF growth. Elevated unrealized losses resulted in negative net investment contributions of $339 million in the fourth quarter of 2021, and $1,495 million and $322 million in the first and second quarters of 2022, respectively. Moving into the third quarter of 2022, interest rates have continued to rise and unrealized losses will likely continue to reduce net investment contributions, below the assumed amount of zero. When rates stabilize and interest income begins to outpace unrealized losses on the DIF portfolio, the positive net investment contributions would help grow the DIF and may accelerate achievement of the statutory minimum reserve ratio to some extent. On the other hand, as long as elevated unrealized losses persist and continue to result in negative net investment contributions, the statutory minimum reserve ratio may be achieved later than projected.

While net investment contributions have been relatively flat to slightly negative since the Restoration Plan was first established in September 2020, interest rate increases have gradually lifted interest income on the DIF portfolio in recent months and over time unrealized losses should eventually be outpaced by higher levels of interest income. However, given the uncertainty of the timing and magnitude of interest rate increases and the effects on the DIF portfolio, it is staff's view that zero net investment contributions remains a reasonably conservative assumption over the near-term. In the longer-term, projections for reaching the 2 percent DRR already assume positive net investment contributions after the reserve ratio reaches 1.35 percent, based on market-implied forward rates, and including additional net investment contributions in the near-term had little effect on the analysis for reaching the 2 percent DRR.[40] When rates stabilize and interest income begins to outpace unrealized losses on the DIF portfolio, resulting in positive net investment contributions, staff will consider revisiting assumptions in future semiannual updates accordingly.

Staff recognize that relatively minor changes in the underlying assumptions result in considerably different outcomes, as the reserve ratio is projected to reach the statutory minimum of 1.35 percent in 2034 in Scenario A, compared to 8 years earlier in Scenario B. The disparity between outcomes under these scenarios demonstrates the sensitivity of the projections to slight variations in any key variable and the need to adopt an increase in assessment rate schedules now in order to generate a buffer to absorb unexpected losses, accelerated insured deposit growth, or lower average assessment rates.

Given these uncertainties, staff also updated projections of the DIF balance and associated reserve ratio under each scenario, applying the 2 basis point increase in average assessment rates beginning in the first assessment period of 2023. Updated projections indicate that the increase of 2 basis points would improve the likelihood that the reserve ratio will reach the statutory minimum ahead of the statutory deadline, building in a buffer in the event of uncertainties as described above that could stall or counter growth in the reserve ratio. Under both scenarios described above, an increase in assessment rates of 2 basis points is projected to result in the reserve ratio reaching the statutory minimum of 1.35 percent approximately two years from now. Updating the analysis incorporated in the proposal to include the latest data available, as of June 30, 2022, despite the 0.7 percent decline in insured deposits, had minimal effect on the date the reserve ratio reaches 1.35 percent after applying the 2 basis point increase.

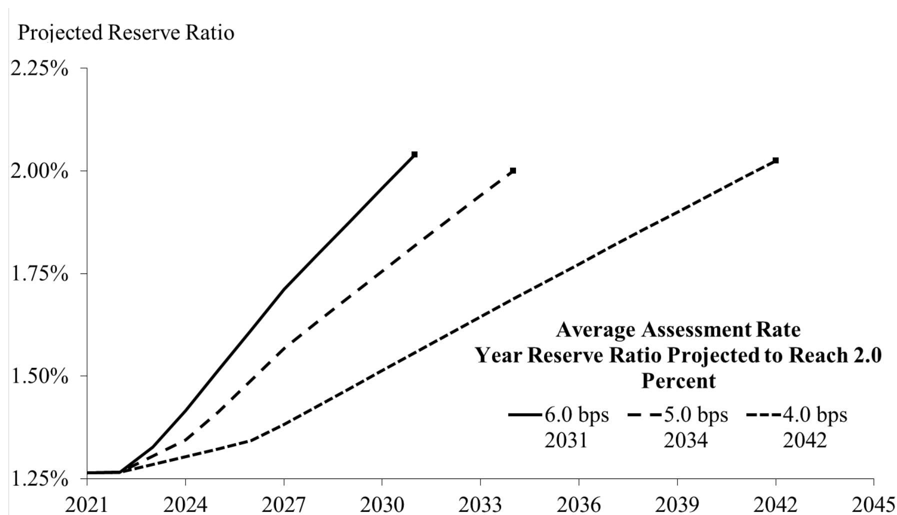
Once the DIF reaches 1.35 percent, the FDIC will no longer operate under a restoration plan. Any

[40] Projections for reaching the 2 percent DRR assume net investment contributions to the DIF of zero until the reserve ratio reaches 1.35 percent. Net investment contributions assumptions are then based on market-implied forward rates from that point forward. Applying this assumption for the entire projection period does not significantly accelerate the achievement of a 2 percent DRR (the reserve ratio would reach 2 percent in 2031 instead of 2032).

subsequent decline in the reserve ratio below the statutory minimum would, therefore, require the Board to establish a new restoration plan with an additional eight years to restore the reserve ratio. Alternatively, in the event that the industry experiences a downturn before the FDIC has exited its current Restoration Plan, the FDIC might have to consider larger assessment increases to meet the statutory requirement in a more compressed timeframe and under less favorable conditions. Staff also updated analysis of the effects of the increase in assessment rate schedules in supporting growth in the DIF in progressing toward the 2 percent DRR to include data from June 30, 2022. For this analysis, staff assumed a near-term annual insured deposit growth rate of 3.5 percent and a weighted average assessment rate of 4.0 basis points.[41] These assumptions reflect the ranges of insured deposit growth and assessment rates used in Scenario B, described above, and result in the shortest projected timeline to reach a 2 percent reserve ratio. As illustrated in Chart 1, even under these relatively favorable conditions, absent an increase in assessment rates, the projected reserve ratio would not reach 2 percent until 2042, about twenty years from now.[42] When the FDIC proposed the long-term, comprehensive fund management plan in 2010, it estimated that the reserve ratio would reach 2 percent in 2027.[43]

Using the same assumptions, an increase in assessment rates would significantly accelerate the timeline for achieving a 2 percent DRR. An increase in assessment rates of 2 basis points would accelerate the timeline by 11 years, to 2031.

Chart 1 – Expected Time to Reach a 2 Percent Reserve Ratio



The 2 basis point increase in assessment rate schedules brings the average assessment rate of 3.8 basis points, as of June 30, 2022, close to the moderate steady assessment rate that would have been required to maintain a positive DIF balance from 1950 to 2010, and identified as part of the long-term, comprehensive fund

[41] After September 30, 2028, the deadline to restore the reserve ratio to the 1.35 percent minimum, insured deposits are assumed to grow at the pre-pandemic annual average of 4.5 percent.

[42] The analysis shown in Chart 1 is based on the assumptions used in Scenario B through the projected quarter that the reserve ratio meets or exceeds 1.35 percent. Afterward, the analysis assumes: (1) net investments contributions to the fund based on market-implied forward rates; (2) the assessment base grows 4.5 percent, annually; (3) operating expenses grow at 1 percent per year; and (4) failures for the five-year period from 2022 to 2026 cost approximately $1.8 billion, with a low level of losses each year thereafter. The uniform increase in assessment rates of 1 or 2 basis points from the current rate schedule is assumed to take effect on January 1, 2023.

[43] *See* 75 FR 66281.

management plan in 2011.[44] Upon achieving the 2 percent DRR, progressively lower assessment rate schedules will take effect. The 2 basis point increase accelerates the timeline for achieving the 2 percent DRR, reduces the likelihood that the FDIC would need to consider a potentially pro-cyclical assessment rate increase, and increases the likelihood of the DIF remaining positive through potential future periods of significant losses due to bank failures, consistent with the FDIC's long-term fund management plan.

Capital and Earnings Analysis and Expected Effects

Using data through June 30, 2022, the latest available as of the date of publication, staff estimated that a uniform increase in initial base assessment rate schedules of 2 basis points would contribute approximately $4.4 billion in annual assessment revenue in 2023. To estimate the effects of the increase in assessment rate schedules relative to a bank's capital, the analysis considers the effective after-tax cost of assessments in calculating the effect on capital, and assumes that an institution will maintain its dividend rate (that is, dividends as a fraction of net income) from the weighted average rate reported over the four quarters ending June 30, 2022.[45] Given the assumptions in the analysis, and based on data as of June 30, 2022, for the industry as a whole, staff estimate that, on average, a uniform increase in assessment rate schedules of 2 basis points would decrease Tier 1 capital by an estimated 0.1 percent.[46] The increase in assessment rate schedules is estimated to cause no banks whose ratio of equity to assets would have equaled or exceeded 4 percent under the current assessment rate schedule to fall below that percentage (becoming undercapitalized), and no banks whose ratio of equity to assets would have exceeded 2 percent under the current rate schedule to fall below that percentage, becoming critically undercapitalized.[47]

The effect of the change in assessments on an institution's income is measured by the change in deposit insurance assessments as a percent of income before assessments and taxes (hereafter referred to as "income"). Staff analyzed the impact of assessment changes on institutions that were profitable in the period covering the 12 months before June 30, 2022. The banking industry has reported strong earnings in recent quarters and saw a rise in net income in the second quarter of 2022 due to growth in net interest income, which resulted from a combination of loan growth and rising interest rates. From July 1, 2021, through June 30, 2022,

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[44] *See* 75 FR 66273 and 76 FR 10675.
[45] The Tax Cuts and Jobs Act of 2017 placed a limitation on tax deductions for FDIC premiums for banks with total consolidated assets between $10 and $50 billion and disallowed the deduction entirely for banks with total assets of $50 billion or more. *See* the Tax Cuts and Jobs Act, Pub. L. 115-97 (Dec. 22, 2017). The analysis does not incorporate any tax effects from an operating loss carry forward or carry back.
[46] Estimates and projections related to the proposed uniform increase in assessment rates of 2 basis points assume that: (1) insured deposit growth is 4 percent annually, seasonally distributed in line with average growth rates from 2015 through 2019; (2) the average assessment rate before any rate increase is 3.5 basis points; (3) losses to the DIF from bank failures through 3Q 2028 total $2.36 billion; (4) the assessment base grows 4.5 percent, annually; (5) interest income on the deposit insurance fund balance is zero; and (6) operating expenses grow at 1 percent per year.
[47] The analysis uses 4 percent as the threshold because IDIs generally need to maintain a leverage ratio of 4.0 percent or greater to be considered "adequately capitalized" under Prompt Corrective Action Standards, in addition to the following requirements: (i) total risk-based capital ratio of 8.0 percent or greater; (ii) Tier 1 risk-based capital ratio of 6.0 percent or greater; (iii) common equity tier 1 capital ratio of 4.5 percent or greater; and (iv) does not meet the definition of "well capitalized." Beginning January 1, 2018, an advanced approaches or Category III FDIC-supervised institution will be deemed to be "adequately capitalized" if it satisfies the above criteria and has a supplementary leverage ratio of 3.0 percent or greater, as calculated in accordance with 12 CFR 324.10. See 12 CFR 324.403(b)(2). For purposes of this analysis, equity to assets is used as the measure of capital adequacy.

most (4,575 out of 4,764) IDIs were profitable.

Given the assumptions in the analysis, for the industry as a whole, staff estimate that the estimated annual increase in assessments would reduce income by an average of 1.2 percent, which includes an average of 1.0 percent for small banks and an average of 1.3 percent for large and highly complex institutions.[48] Approximately 96 percent of profitable institutions are projected to have an increase in assessments in an amount between 0 and 5 percent of income, with 95 percent of profitable small institutions and 99 percent of profitable large and highly complex institutions projected to have an increase between 0 and 5 percent of income. Another 4 percent of profitable institutions–all profitable small institutions–are projected to have an increase in assessments exceeding 5 percent of income.

ALTERNATIVES CONSIDERED

Staff considered several reasonable and possible alternative methods to meet the requirement that the reserve ratio reach the statutory minimum by the statutory deadline. On balance, staff view an increase in assessment rate schedules of 2 basis points as the most appropriate and most straightforward manner in which to achieve the objectives of the Amended Restoration Plan and the long-term fund management plan.

The first alternative was to maintain the current schedule of assessment rates. Under this alternative, the reserve ratio would be at risk of not reaching the statutory minimum of 1.35 percent by the deadline of September 30, 2028. Growth in the fund resulting from current assessment rates could be offset if unexpected losses materialize, insured deposit growth accelerates, or risk profiles of institutions continue to improve resulting in lower assessment rates. Additionally, relative to the other alternatives and the increase in assessment rate schedules of 2 basis points, maintaining the current schedule of assessment rates would not result in any acceleration of growth in the DIF in progressing toward the FDIC's long-term goal of a 2 percent DRR. Absent an increase in assessment rates and assuming annual insured deposit growth of 3.5 percent and a weighted average assessment rate of 4.0 basis points, staff projected that the reserve ratio would achieve the 2 percent DRR in 2042, eleven years later than if the FDIC were to apply an increase in assessment rate schedules of 2 basis points beginning in 2023.

A second alternative was to increase initial base assessment rates uniformly by 1 basis point. Staff project that a 1 basis point increase in the average assessment rate would result in the reserve ratio reaching the statutory minimum in 2024 or 2026, based on scenario analysis with different rates of insured deposit growth and assessment rates. Staff rejected this alternative in favor of a 2 basis point increase because these dates are close to the statutory deadline and provide a limited buffer to absorb unexpected losses, accelerated insured deposit growth, or lower average assessment rates that could materialize over this period. The alternative increases the likelihood that the FDIC would need to consider a potentially pro-cyclical increase in assessment rates should the banking industry enter a period of stress. Additionally, a 1 basis point increase is projected to result in the reserve ratio achieving the 2 percent DRR in 2034, about 3 years later than if the FDIC were to apply an increase in assessment rate schedules of 2 basis points.

A third alternative was to impose a one-time special assessment of 4.5 basis points, applicable to the assessment base of all IDIs. Utilizing data as of June 30, 2022, and assuming an effective date of January 1, 2023, staff estimate that a one-time special assessment of 4.5 basis points would contribute approximately $9.7 billion in annual assessment revenue and the reserve ratio would reach 1.35 percent the quarter following the effective date (i.e., the second assessment period of 2023). While a one-time special assessment of 4.5 basis points is projected to increase the DIF reserve ratio to 1.35 percent the most quickly and precisely, and would significantly mitigate the potential that the FDIC would need to consider a potentially pro-cyclical increase in

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[48] Earnings or income are annual income before assessments and taxes. Annual income is assumed to equal income from July 1, 2021, through June 30, 2022.

assessment rates, it is estimated to result in a quarterly assessment expense that is more than eight times greater than an increase in assessment rate schedules of 2 basis points. Staff estimate that, on average, a one-time special assessment of 4.5 basis points would decrease Tier 1 capital by an estimated 0.5 percent and reduce the annual earnings of IDIs by approximately 2.8 percent, in aggregate. Additionally, the risk would remain that the reserve ratio could fall back below the statutory minimum shortly after being restored to 1.35 percent, resulting in the establishment of a new restoration plan. Finally, a one-time special assessment would not meaningfully accelerate the timeline for achieving the 2 percent DRR.

On balance, in staff's view, an increase in initial base assessment rate schedules of 2 basis points appropriately balances several considerations, including the goal of reaching the statutory minimum reserve ratio reasonably promptly, strengthening the fund to reduce the risk that the FDIC would need to consider a potentially pro-cyclical assessment increase in the event of a future downturn or industry stress before the statutory deadline, at a time when the banking industry is better positioned to absorb a modest assessment increase in assessment rate schedules, and improving the timeline for achieving a 2 percent DRR to strengthen the fund to withstand potential future banking crises.

EFFECTIVE DATE OF THE FINAL RULE

FDIC staff recommend that the Board approve this final rule and authorize its publication in the *Federal Register* with an effective date of January 1, 2023, and applicable beginning the first quarterly assessment period of 2023 (i.e., January 1 through March 31, 2023, with an invoice payment date of June 30, 2023).

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