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FDIC Proposes Changes to Large Bank Assessment Rule To Quell Discomfort Among Large Banks

On March 19, the Federal Deposit Insurance Corporation (FDIC) proposed changes in key definitions that control how much money large banks will pay in order to maintain their insurance coverage from FDIC. The Federal Deposit Insurance Act (the FDI Act) requires that the deposit insurance assessment system be risk-based . It defines a risk-based system as one based on an institution's probability of causing a loss to the Deposit Insurance Fund (the DIF), taking into account the composition and concentration of the institution's assets and liabilities and any other factors that the FDIC determines are relevant, the likely amount of any such loss, and the revenue needs of the DIF. The FDI Act allows the FDIC to "establish separate risk-based assessment systems for large and small members of the Deposit Insurance Fund." Generally, "large" banks have more than $10 billion in assets.

On February 7, 2011, the FDIC Board adopted a final rule that amended its assessment regulations, by, among other things, establishing a new methodology for determining assessment rates for large and highly complex institutions (the February rule).

The proposed FDIC amendments to the February rule assessment system for large and highly complex institutions would: "(1) revise the definitions of certain higher risk assets, specifically leveraged loans, which would be renamed "higher-risk C&I loans and securities," and subprime consumer loans, which would be renamed "higher-risk consumer loans and securities"; (2) clarify the timing of classifying an asset as higher risk; (3) clarify the way securitizations (including those that meet the definition of nontraditional mortgage loans) are to be identified; and (4) further define terms that are used in the large bank pricing rule." The proposed changes would appear to go a long way to resolving concerns that banks did not and do not collect the type of information that they would have been required to report based on the February rule. It is interesting to observe the footnotes in the proposal, which explain, from FDIC's point of view, why staff did not appreciate the difficulty banks would have in reporting such information, and essentially take the position that banks did not explain the difficulties in a timely manner. Thus, FDIC stated that "…no comments were received on the November 2010 NPR indicating that large institutions would be unable to identify and report subprime or leveraged loans in accordance with the final rule's definitions in their Call Reports and

TFRS beginning as of June 30, 2011. The data availability concerns were first expressed in comments on the PRA notice."

The proposed amendments would be effective on October 1, 2012, predicated on changes to the Call Report template.

For more information, click here.

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