

5. *Property location—use of BNA.* At its option, an institution may report property location by using a block numbering area (BNA). The U.S. Census Bureau, in conjunction with state agencies, has established BNAs as statistical subdivisions of counties in which census tracts have not been established. BNAs are generally identified in census data by numbers in the range 9501 to 9999.99. (Appendix A of this part, Paragraph V.C.4.)

Paragraph 4(a)(7) Applicant and income data.

1. *Applicant data—completion by applicant.* An institution reports the monitoring information as provided by the applicant. For example, if an applicant checks the “other” box the institution reports using the “other” code. (Appendix A of this part, Paragraph V.D.)

2. *Applicant data—completion by lender.* If an applicant fails to provide the requested information for an application taken in person, the institution reports the data on the basis of visual observation or surname. As stated in paragraph I.B.5 to Appendix B of this part, the institution does not use the “other” code, but selects from the categories listed on the form. (Appendix A of this part, Paragraph V.D.)

3. *Applicant data—application completed in person.* When an applicant meets in person with a lender to complete an application that was begun by mail or telephone, the institution must request the monitoring information. If the meeting occurs after the application process is complete, for example, at closing, the institution is not required to obtain monitoring information. (Appendix A of this part, Paragraph V.D.)

4. *Applicant data—joint applicant.* A joint applicant may enter the government monitoring information on behalf of an absent joint applicant. If the information is not provided, the institution reports using the code for “information not provided by applicant in mail or telephone application.” (Appendix A of this part, Paragraph V.D.)

5. *Applicant data—video and other electronic application processes.* An institution that accepts applications through electronic media with a video component treats the applications as taken in person and collects the information about the race or national origin and sex of applicants. An institution that accepts applications through electronic media without a video component (for example, the Internet or facsimile) treats the applications as accepted by mail. (Appendix A of this part, Paragraph V.D.) (See Appendix B of this part for procedures to be used for data collection.)

6. *Income data—income relied upon.* An institution reports the gross annual income relied on in evaluating the creditworthiness of applicants. For example, if an institution relies on an applicant's salary to compute a debt-to-income ratio, but also relies on the applicant's annual bonus to evaluate creditworthiness, the institution reports the salary and the bonus to the extent relied upon. Similarly, if an institution relies on the income of a cosigner to evaluate creditworthiness, the institution includes this income to the extent relied upon. But an institution does not include the income of a

guarantor who is only secondarily liable. (Appendix A of this part, Paragraph V.D.5.)

7. *Income data—co-applicant.* If two persons jointly apply for a loan and both list income on the application, but the institution relies only on the income of one applicant in computing ratios and in evaluating creditworthiness, the institution reports only the income relied on. (Appendix A of this part, Paragraph V.D.5.)

8. *Income data—loan to employee.* An institution may report “NA” in the income field for loans to employees to protect their privacy, even though the institution relied on their income in making its credit decisions. (Appendix A of this part, Paragraph V.D.5.)

Paragraph 4(a)(8) Purchaser.

1. *Type of purchaser—loan participation interests sold to more than one entity.* An institution that originates a loan, and then sells it to more than one entity, reports the “type of purchaser” based on the entity purchasing the greatest interest, if any. If an institution retains a majority interest it does not report the sale. (Appendix A of this part, Paragraph V.E.)

4(c) Optional data.

1. *Agency requirements.* Certain state or federal entities, such as the Office of Thrift Supervision, require institutions to report the reasons for denial even though this is optional reporting under HMDA and Regulation C. (Appendix A of this part, Paragraph V.F.)

4(d) Excluded data.

1. *Loan pool.* The purchase of an interest in a loan pool (such as a mortgage-participation certificate, a mortgage-backed security, or a real estate mortgage investment conduit or “REMIC”) is a purchase of an interest in a security under HMDA and is not reported on the HMDA-LAR. (Appendix A of this part, Paragraph IV.B.5.)

Section 203.5—Disclosure and Reporting

5(a) Reporting to agency.

1. *Change in supervisory agency.* If the supervisory agency for a covered institution changes (as a consequence of a merger or a change in the institution's charter, for example), the institution reports data to its new supervisory agency for the year of the change and subsequent years. (Appendix A of this part, Paragraphs I., III. and VI.)

2. *Subsidiaries.* An institution is a subsidiary of a bank or savings association (for purposes of reporting HMDA data to the parent's supervisory agency) if the bank or savings association holds or controls an ownership interest that is greater than 50 percent of the institution. (Appendix A of this part, Paragraph I.E. and VI.)

5(e) Notice of availability.

1. *Poster—suggested text.* The suggested wording of the poster text provided in Appendix A of this part is optional. An institution may use other text that meets the requirements of the regulation. (Appendix A of this part, Paragraph III.G.)

Section 203.6—Enforcement

6(b) Bona fide errors.

1. *Bona fide error—information from third parties.* An institution that obtains the property location information for applications and loans from third parties (such as appraisers or vendors of

“geocoding” services) is responsible for ensuring that the information reported on its HMDA-LAR is correct. An incorrect entry for a census tract number is a bona fide error, and is not a violation of the act or regulation, provided that the institution maintains reasonable procedures to avoid such errors (for example, by conducting periodic checks of the information obtained from these third parties). (Appendix A of this part, Paragraph V.C.)

By order of the Secretary of the Board, acting pursuant to delegated authority for the Board of Governors of the Federal Reserve System, December 4, 1995.

William W. Wiles,

Secretary of the Board.

[FR Doc. 95–30035 Filed 12–8–95; 8:45 am]

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FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 327

Assessments; Adjustment of Assessment Rate Schedule for BIF-Assessable Deposits

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Adjustment of assessment rate schedule.

SUMMARY: On November 14, 1995, the Board of Directors of the FDIC adopted a resolution to reduce to a range of 0 to 27 basis points the assessment rates applicable to deposits assessable by the Bank Insurance Fund for the semiannual assessment period beginning January 1, 1996. The reduction represents a downward adjustment of 4 basis points from the BIF assessment rate schedule currently in effect for the second semiannual assessment period of 1995.

EFFECTIVE DATE: January 1, 1996, through June 30, 1996.

FOR FURTHER INFORMATION CONTACT: Frederick S. Carns, Chief, Financial Markets Section, Division of Research and Statistics, (202) 898–3930; Christine Blair, Financial Economist, Division of Research and Statistics, (202) 898–3936; Claude A. Rollin, Senior Counsel, Legal Division, (202) 898–3985; Martha L. Coulter, Counsel, Legal Division, (202) 898–7348; Federal Deposit Insurance Corporation, 550–17th Street NW., Washington, D. C., 20429.

SUPPLEMENTARY INFORMATION:

I. Adjustment of Existing BIF Assessment Rate Schedule

On August 8, 1995, the Board of Directors of the FDIC (Board) adopted a new assessment rate schedule for

deposits subject to assessment by the Bank Insurance Fund (BIF). 60 FR 42680 (August 16, 1995). The new schedule (codified as Rate Schedule 2 at 12 C.F.R. 327.9(a)) provided for an assessment-rate range of 4 to 31 basis points and became effective retroactively on June 1, 1995, the beginning of the month following the month in which the BIF reached its designated reserve ratio (DRR) of 1.25 percent of total estimated insured deposits.

In adopting that rate schedule, the Board took into account the factors required by the assessment provisions of section 7(b) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. 1817(b). Those factors include the requirement for a risk-based assessment system that is based on the risk of loss posed to BIF by each BIF-insured institution, taking into account different categories and concentrations of assets and liabilities and other relevant factors; the likely amount of any such loss; and BIF's revenue needs. (Section 7(b)(1)). They also include the requirement that rates be set to reach or maintain the DRR, taking into account BIF's expected operating expenses, case resolution expenditures and income, the effect of assessments on members' earnings and capital, and any other factors the Board may deem appropriate. (Section 7(b)(2)).

At the same time the Board adopted the current rate schedule, it also amended the FDIC's assessment regulations to permit the Board to make limited adjustments to the schedule without notice-and-comment rulemaking. Any such adjustments can be made as the Board deems necessary to maintain the BIF reserve ratio at the DRR and can be accomplished by Board resolution. Under this provision, codified at 12 CFR 327.9(b), any such adjustment must not exceed an increase or decrease of 5 basis points and must be uniform across the rate schedule.

The amount of an adjustment adopted by the Board under 12 C.F.R. 327.9(b) is to be determined by the following considerations: (1) the amount of assessment revenue necessary to maintain the reserve ratio at the DRR; and (2) the assessment schedule that would generate such amount of assessment revenue considering the risk profile of BIF members. In determining the relevant amount of assessment revenue, the Board is to consider BIF's expected operating expenses, case resolution expenditures and income, the effect of assessments on BIF members' earnings and capital, and any other factors the Board may deem appropriate.

Having considered all of these factors, the Board has decided to adopt an adjustment factor of 4 basis points for

the semiannual assessment period beginning January 1, 1996, with a resulting adjusted schedule as follows:

**BIF RATE SCHEDULE AS ADJUSTED
FOR THE FIRST SEMIANNUAL PERIOD
OF 1996**

Capital group	Supervisory subgroup		
	A	B	C
1	10	3	17
2	3	10	24
3	10	24	27

¹ Subject to a statutory minimum assessment of \$1,000 per semiannual period (which also applies to all other assessment risk classifications).

The basis for the Board's decision is discussed below.

II. Basis for the Adjustment

A. Maintaining at the Designated Reserve Ratio

On June 30, 1995, the BIF reserve ratio stood at nearly 1.29 percent, and all indications are that it continued to grow during the third quarter of 1995. If the rates in effect for the current semiannual assessment period were to continue in effect, it is likely that, absent large increases in insurance losses and deposit growth, the reserve ratio would continue to grow during the first half of 1996. BIF operating expenses and insurance losses have been lower than anticipated and are projected to remain low in the near term due to the strong economy and high capital levels in the banking industry. Even taking into account the possibility of large increases in insurance losses and deposit growth that currently appear highly unlikely, it is still probable that the reserve ratio would remain at or above the target reserve ratio of 1.25 percent in the near term. Accordingly, the Board has determined that a reduction in the BIF assessment rate schedule is necessary to comply with the statutory requirements for setting assessment rates, including the requirement that the FDIC maintain the reserve ratio at the target DRR.

B. Determination of the Adjustment Factor

1. Amount of Assessment Revenue Needed

The FDIC determined in August that an effective average BIF assessment rate at the low end of a range beginning at around 4.5 basis points was appropriate to achieve a long-term balance of BIF revenues and expenses (where expenses include monies needed to prevent dilution due to deposit growth). This

determination was based on a thorough historical analysis of FDIC experience and consideration of recently enacted statutory provisions that may moderate deposit insurance losses going forward.

The Board has not altered its view that, in setting rates, it should look beyond the immediate time frame in estimating the revenue needs of the fund. However, under the law, the current balance in the BIF also is directly relevant to determining the appropriate assessment level for the first semiannual period of 1996. In light of the favorable existing conditions and outlook for the next several months, it is anticipated that even an adjustment sufficient to reduce the rate for the least-risky institutions essentially to zero for the next assessment period would still provide assessment revenue in an amount that is expected to maintain the BIF reserve ratio at or above the target ratio of 1.25 percent in the near term.

In deciding upon a rate schedule for the second semiannual assessment period of 1995, the Board considered high-growth and low-growth scenarios for the BIF balance and the anticipated reserve ratio at year end. Current information suggests that the BIF balance and reserve ratio at year end will correspond more closely to the high-than the low-growth scenario, as indicated below.

The BIF reserve ratio stood at nearly 1.29 percent as of June 30, 1995, the latest date for which complete data are available. Assuming annualized insured deposit growth of between 0 and 2 percent during the third quarter, the BIF reserve ratio may have achieved 1.30 to 1.31 percent as of September 30, 1995.¹ All indications are that the reserve ratio will continue to rise for the remainder of 1995.

Insurance losses and operating expenses for the second half of 1995 are expected to total under \$400 million, while assessments plus investment income will exceed \$1 billion for this period. Insured deposit growth for the second half of 1995 likely will be moderate; the annualized growth rate was 1.5 percent for the year ending on June 30, and preliminary estimates suggest that deposit growth will be near zero or possibly negative for the third quarter. Table 1 indicates that the reserve ratio is likely to reach 1.31 to 1.34 percent by year-end 1995, reflecting a range of insured deposit growth from +2 to -2 percent annually for the second half of the year.

¹ The BIF reserve ratio as of September 30, 1995, cannot be determined precisely until Call Report data showing BIF-assessable deposits for that date are processed and analyzed. This process is expected to be completed by mid-December 1995.

With a forecast horizon exceeding six months, large unexpected changes in the reserve ratio are possible, given the historical volatility in deposit growth and insurance losses. However, the outlook for the first semiannual assessment period of 1996 is for continued growth in BIF and its reserve ratio. Little change is expected in the pace of insurance losses or operating expenses, with the result that investment income is expected to be sufficient to fund BIF expenditures through June 30.

Table 1 indicates that, under the current assessment schedule, the BIF reserve ratio would exceed 1.25 percent as of June 30, 1996, even assuming a severe negative growth scenario for the reserve ratio. For example, the reserve ratio at June 30 likely would be at least 1.28 percent even if losses plus new provisions for future losses total \$600 million for the first half of 1996 and insured deposits grow at an annual rate of 6 percent from mid-year 1995 through mid-year 1996. Table 1 indicates that under these same extreme assumptions, an assessment rate schedule of 0 to 27 basis points annually (4 basis points lower for all risk categories than the existing schedule) likely would maintain the reserve ratio at 1.25 percent through June 30.

In short, the FDIC's best estimate is that the BIF reserve ratio is highly likely to remain well above 1.25 percent for the first semiannual period of 1996 even if assessment revenue is minimal. Given these circumstances, it is the Board's view that assessment rates should be reduced by a substantial amount. The data reviewed above support a reduction in BIF assessment rates to the lowest levels that are consistent with an effective risk-based assessment system.

Finally, the Board notes that this reduction of BIF assessment rates is likely to have a positive impact on earnings and capital of insured institutions having deposits assessable by BIF.

2. Maintaining a Risk-Based Assessment System.

The FDI Act requires a risk-based assessment system. In adopting the current rate schedule, the Board explained its view that, to be effective, the risk-based assessment system must incorporate a range of rates that provides an incentive for institutions to control risk-taking behavior while at the same time covering the long-term costs of the obligations borne by the deposit insurer. 60 FR 42683 (August 16, 1995). The Board's decision to adopt a 4-point adjustment to the current rate schedule, thereby retaining rate differentials among the various assessment-risk

classifications, continues to reflect this view.

It should be noted that, under existing statutory provisions, BIF members are subject to a minimum assessment of \$1,000 for each semiannual period. (FDI Act section 7(b)(2)(iii)). Under this requirement, even those institutions posing the least risk of loss to BIF are statutorily required to pay semiannual assessments of at least that amount.

In light of its decision to reduce to zero the explicit assessment rate for those institutions in the most favorable assessment risk classification, the Board recognizes two concerns associated with the statutory minimum assessment: (1) the absence of an explicit assessment rate combined with a minimum semiannual assessment of only \$1,000 suggests that the risk posed to the insurance fund by such institutions is insignificant, but FDIC experience suggests otherwise; and (2) the marginal cost of deposit insurance for such institutions is zero (that is, insurance is provided on new deposits at zero additional cost).

The first concern arises because, historically, a significant percentage of failed institutions might have qualified for the most favorable assessment risk classification two or three years prior to failure. Figure 1 shows that, of the insured institutions that failed in the period beginning with 1980 and extending through 1994, nearly 35 percent were rated CAMEL 1 or 2 as of two years prior to failure, and approximately 55 percent were rated CAMEL 1 or 2 as of three years prior to failure. Moreover, of the BIF members that failed from the beginning of 1987 through 1994, 80 percent were well capitalized as of three years prior to failure (see Figure 2).

An argument for imposing only the minimum assessment on the least-risky institutions is that the reserve ratio is intended to provide for insurance losses arising from these types of failures; because BIF has been recapitalized through assessments, the protection received during periods when only the minimum assessment is paid may be viewed as "prepaid insurance."

An alternative view supports an explicit, risk-based assessment rate for even the least-risky institutions as an important element of a risk-based assessment system. However, as the Board noted in adopting the existing BIF assessment rate schedule in August, the FDIC is required by statute both to have a risk-based assessment system and to maintain the reserve ratio at the target DRR. The Board cannot ignore one in favor of the other but must, instead, balance the two in an appropriate

manner. The Board believes that the 4-point adjustment strikes such a balance.

Regarding the second concern noted above, among the implications of a zero marginal cost for deposit insurance is that the best-rated new institutions would receive insurance protection essentially premium-free without having contributed to the existing reserve ratio. The FDIC is analyzing this issue to determine whether new institutions should receive special assessment treatment for a period of time after they initially become insured. Without any operational track record and with no previous contribution to BIF, there is a question as to whether an essentially zero marginal rate is justified.

Another implication of a zero marginal assessment is that the largest institutions in the best category would pay the same dollar amount for deposit insurance as the smallest institutions. For example, an institution with \$10 billion in BIF-assessable deposits would pay the same amount (\$1,000 per semiannual period) as an institution with \$10 million in BIF-assessable deposits.

The Board does not minimize the foregoing concerns. Rather, given current industry conditions, the financial health of the BIF, low projected losses, and the statutory requirement to maintain the BIF reserve ratio at the target DRR, it is the judgment of the Board that the institutions posing the lowest risk to BIF should be assessed only the statutory minimum assessment. In particular, this decision does *not* reflect a judgment that such institutions pose a near-zero risk to BIF but instead a recognition that the existing BIF balance, in excess of \$25 billion, represents the significant prepayment BIF-assessable institutions have made for deposit insurance.

III. Board Resolution

The Resolution by which the Board adopted the adjustment to the current rate schedule 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 that when the reserve ratio of the Bank Insurance Fund ("BIF") reaches the designated reserve ratio ("DRR") of 1.25 percent of estimated insured deposits, the Board shall set semiannual assessments for BIF

members to maintain the reserve ratio at the DRR; and

Whereas, section 7(b) further requires that, in setting BIF semiannual assessments, 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, Part 327 of the FDIC's rules and regulations, 12 CFR Part 327, entitled "Assessments," prescribes the rules governing the assessment of institutions insured by the FDIC; and

Whereas, on August 8, 1995, the Board adopted, by regulation, a rate schedule for deposits assessable by BIF of 4 to 31 basis points, set forth as Rate Schedule 2 at section 327.9(a) of the FDIC's rules and regulations, to become effective at the beginning of the month after BIF reached the DRR; and

Whereas, said rate schedule became effective on June 1, 1995, and continues in effect for the second semiannual assessment period of 1995; and

Whereas, section 327.9(b) of the FDIC's rules and regulations, also adopted by the Board on August 8, 1995, permits the Board, by resolution, to adjust said rate schedule upward or downward by a maximum of 5 basis points, as the Board deems necessary to maintain the reserve ratio at the DRR; and

Whereas, section 327.9(b) requires that any such adjustment shall be

determined by (1) the amount of assessment revenue necessary to maintain the BIF reserve ratio at the DRR, and (2) the assessment schedule that would generate that amount of revenue considering the risk profile of BIF members; and

Whereas, in determining that amount of revenue, the Board is required to take into consideration (1) expected BIF operating expenses, (2) case resolution expenditures and income, (3) the effect of assessments on BIF members' earnings and capital, and (4) any other factors the Board may deem appropriate; and

Whereas, the BIF's operating expenses and insurance losses have been lower than anticipated and are projected to remain low in the near term due to the strong economy and high capital levels in the banking industry; and

Whereas, the BIF reserve ratio currently exceeds the target DRR and, absent unexpectedly large insurance losses or deposit growth, is expected to remain above the DRR for the first semiannual period of 1996 and beyond if the current rate schedule remains in effect without adjustment; and

Whereas, reducing BIF assessment rates is likely to have a favorable impact on earnings and capital of insured institutions having deposits insured by the BIF; and

Whereas, the Board has therefore determined that a downward adjustment to the current rate schedule

is necessary to comply with the statutory requirements for setting assessments, including the requirement that the FDIC maintain the BIF reserve ratio at the DRR; and

Whereas, in determining the amount of the downward adjustment, the Board has considered the factors specified in section 327.9(b), as reflected in the attached Federal Register notice document.

Now, therefore, be it resolved, that the Board does hereby adjust, for the semiannual period beginning January 1, 1996, through June 30, 1996, BIF rate schedule based on Rate Schedule 2 at section 327.9(a) of the FDIC's rules and regulations by a reduction of 4 basis points to be applied uniformly across the schedule to each assessment risk classification represented in the schedule.

Be it further resolved, that the Board hereby directs the Executive Secretary, or his designee, to cause the aforementioned Federal Register notice document to be published in the Federal Register in a form and manner satisfactory to the Executive Secretary, or his designee, and the General Counsel, or his designee.

By order of the Board of Directors.

Dated at Washington, D.C., this 14th day of November, 1995.

Federal Deposit Insurance Corporation.

Robert E. Feldman,

Deputy Executive Secretary.

TABLE 1.—BIF ASSESSMENT RATES FACTORS TO BE CONSIDERED FIRST SEMIANNUAL ASSESSMENT PERIOD, 1996

	Current rate schedule of 4 to 31 basis points	Adjusted rate schedule of 0 to 27 basis points
BIF Ratio at December 31, 1995 ¹ (Percent)	1.31 to 1.34	1.31 to 1.34.
Expected Income (\$Millions)	1,171	677.
Assessment Income (\$Millions)	546	52.
Interest Income (\$Millions)	625	620.
Expected Insurance Losses and Change in Provisions for Future Losses (\$Millions) ²	-100 to +600 ..	-100 to +600.
Expected Operating Expenses (\$Millions)	215	215.
Estimated BIF-Insured Deposits at June 30 ³ (\$Billions)	1,877 to 2,032 ..	1,877 to 2,032.
BIF Ratio at June 30, 1996 ⁴ (Percent)	1.28 to 1.40	1.25 to 1.37.

¹ Range reflects annual insured growth rate of +2 percent versus -2 percent for second half of 1995.

² Range based on FDIC experience, as reviewed in Federal Register notice of August 16, 1995, 60 FR 42680.

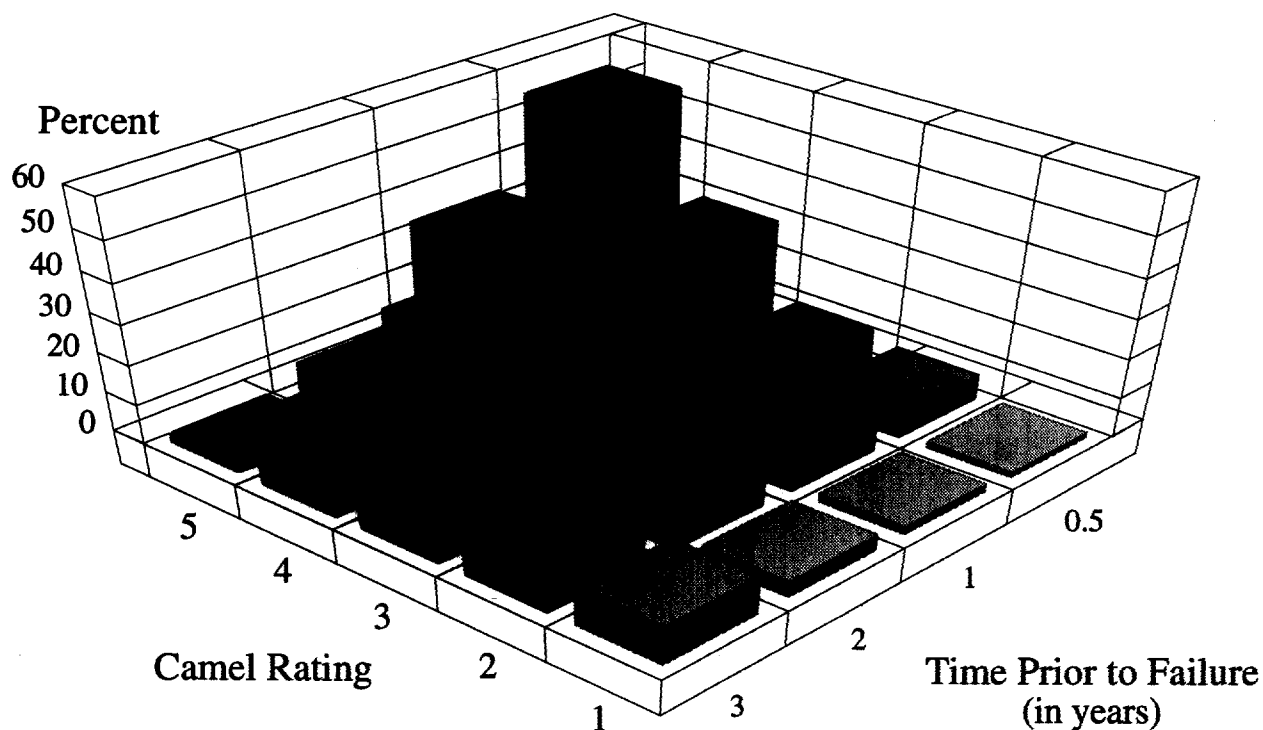
³ Lower bound assumes annual growth of insured deposits of -2 percent for second half of 1995 and first half of 1996. Upper bound assumes annual growth of 6 percent for these same four quarters. Range based on quarterly volatility evidence from 1984:Q2 to 1995:Q1.

⁴ Reflects ranges for all preceding items in Table 1.

Figure 1

Supervisory Ratings of Failed Banks, 1980-1994

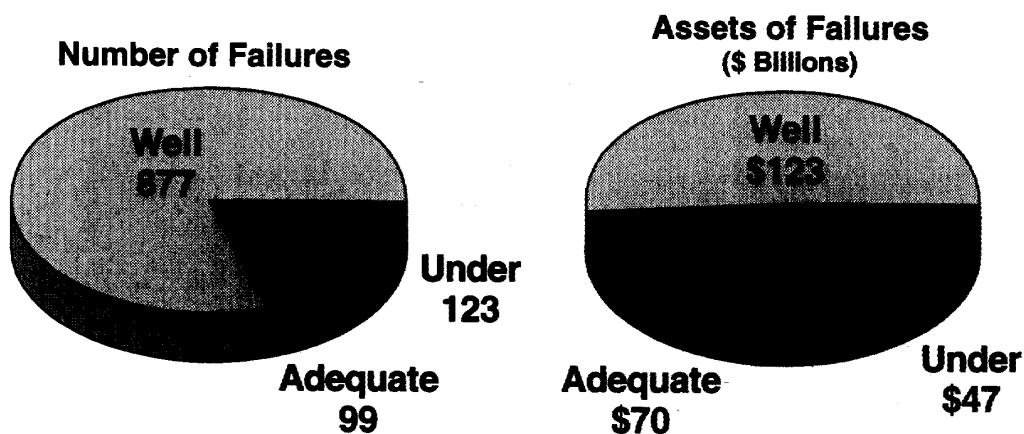
U.S. Total



Camel Rating	Time Prior to Failure (in years)			
	3	2	1	0.5
5	2.8%	7.8%	32.8%	54.4%
4	18.4	31.1	37.3	28.6
3	23.2	26.4	16.5	9.1
2	46.1	30.7	11.3	6.5
1	9.6	4.0	2.1	1.4

Figure 2

Failed BIF Members, 1987-1994: 3-Year Lagged Capital Category



Note: For purposes of this chart, "adequately-capitalized" institutions are those with equity-to-assets ratios of four percent or more. For "well-capitalized" the cutoff is five percent.