# Banking and Finance Law Daily Wrap Up,TOP STORY—BANKING OPERATIONS—FDIC interim rule would allow 'well-managed' small banks to use 18-month cycle,(Jan. 21, 2016)

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The Federal Deposit Insurance Corporation took two actions at its Jan. 21, 2016, meeting of its board of directors, adopting an interim rule that would allow "well-managed" community banks and thrifts with less than $1 billion in assets to qualify for the 18-month exam cycle, and issuing a revised Notice of Proposed Rulemaking on small bank deposit insurance assessments.

**Meaningful regulatory relief.** Along with the FDIC, the Federal Reserve Board and Office of the Comptroller of the Currency now plan to allow well-managed community banks and thrifts with less than $1 billion in assets to qualify for the 18-month exam cycle. The interim final rule follows authority granted by Congress in December 2015. The 18-month exam cycle has previously been limited to institutions with less than $500 million in assets. In his remarks before the board, Thomas J. Curry, the Comptroller of the Currency, stated that he hopes the change will "offer meaningful regulatory relief to a large group of community banks and thrifts with very little safety and soundness risk."

Curry also announced that he had approved an identical interim final rule for institutions supervised by the Office of the Comptroller of the Currency. Curry expects that the 18-month cycle will reduce the burden on well-managed community banks and thrifts as well as allow the banking agencies to focus supervisory resources on institutions that "present capital, managerial, or other issues of significant supervisory concern."

**Revised assessments for small banks.** The FDIC is seeking comments on its proposal that would amend the way small banks are assessed for deposit insurance. According to the FDIC release, the proposal would revise the methodology that the FDIC uses to determine risk-based assessments for small banks (those with less than $10 billion in assets) to help ensure that banks that take on greater risks pay more for deposit insurance than their less risky counterparts. The agency issued an initial proposal on this issue in June 2015 (see *Banking and Finance Law Daily*, June 16, 2015). The updated proposal reflects comments received last year on topics including the calculation of asset growth and the treatment of reciprocal deposits and Federal Home Loan Bank advances. Comments must be received by 30 days following publication of the notice in the *Federal Register*.

In a statement, Chairman Martin J. Gruenberg said that the agency received almost 500 comments on the proposed rule. According to Gruenberg, the revised proposal "would allow

assessments to better differentiate riskier banks from safer banks just as well as last year's proposal, and would allocate the costs of maintaining a strong Deposit Insurance Fund accordingly." Gruenberg stated that the revised proposal is revenue neutral.

Along with the revised proposal, the FDIC is also publishing an online assessment calculator that will allow institutions to estimate their assessment rates under the revised proposal.

**Changes from 2015 proposal.** According to the FDIC's Financial Institution Letter, FIL-7-2016, the new proposal would:

- revise the previously proposed one-year asset growth measure;
- use a brokered deposit ratio; consistent with a number of comments, this ratio would treat reciprocal deposits and Federal Home Loan Bank advances the same way the current system does—rather than the previously proposed core deposit ratio—as a measure in the financial ratios method for calculating assessment rates for all established small banks;
- remove the existing brokered deposit adjustment for established small banks, which currently applies to banks outside Risk Category I; and
- revise the weights assigned to the proposed measures in the financial ratios method based upon a re-estimation of the underlying statistical model.

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