FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-65-2008
July 17, 2008

LARGE-BANK INSURANCE DETERMINATION MODERNIZATION
Final Rule

Summary: The FDIC has issued the attached final rule requiring certain large depository institutions to facilitate the process for determining the insurance status of depositors of an insured depository institution in the event of failure. The rule applies only to an estimated 159 "covered institutions," defined as any insured depository institution with at least $2 billion in domestic deposits and either (1) more than 250,000 deposit accounts or (2) total assets over $20 billion, regardless of the number of deposit accounts. The rule takes effect on August 18, 2008, and allows for an 18-month implementation period.

Distribution:
All Insured Depository Institutions

Suggested Routing:
Chief Executive Officer
Chief Operating Officer

Related Topics:
Deposit Insurance Coverage
12 C.F.R. Part 330

Attachment:
Final Rule

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Highlights:

- The FDIC is modernizing its current business processes and procedures for determining deposit insurance coverage in the event of a failure of one of the largest insured depository institutions.
- The attached claims modernization rule will require the largest institutions to modify their deposit systems so that in the event of failure, the FDIC can provide depositors prompt access to funds and calculate deposit insurance coverage quickly.
- The FDIC solicited comments on this rule on January 14, 2008. The requirements also were addressed in two advance notices of proposed rulemaking issued in 2005 and 2006. Based on its review of the comments, the FDIC is adopting the least-costly approach that would meet its objectives in the event of a large-bank failure.

LARGE-BANK INSURANCE DETERMINATION MODERNIZATION
Final Rule

The Federal Deposit Insurance Corporation (FDIC) has issued the attached final rule relating to deposit insurance modernization. Covered institutions − defined as any insured depository institution with at least $2 billion in domestic deposits and either (1) more than 250,000 deposit accounts or (2) total assets over $20 billion, regardless of the number of deposit accounts − will be required to adopt mechanisms that would, in the event of the institution's failure:

- Allow automatic posting of provisional holds on large deposit accounts in any percentage specified by the FDIC on the day of failure.
- Allow automatic removal of the provisional holds and posting of the results of insurance determinations as specified by the FDIC.
- Provide the FDIC with deposit account data in a standard format.

This deposit insurance modernization initiative is necessary for the FDIC to meet its mandates to structure the least costly of all possible resolution transactions and to pay insured deposits "as soon as possible" after an institution fails. Doing so would enable the FDIC to:

- maintain public confidence in the banking industry and the FDIC;
- provide the best possible service to insured depositors by minimizing uncertainty about their status and avoiding costly disruptions that may limit their ability to meet financial obligations;
- mitigate the spillover effects of a failure, such as risks to the payments system, problems stemming from depositor illiquidity and a substantial reduction in credit availability; and
- retain, where feasible, the franchise value of the failed institution (and thus minimize the FDIC's resolution costs).

The final rule takes effect on August 18, 2008. Covered institutions will have 18 months from the effective date of the rule to comply with its requirements.

The final rule provides for accelerated implementation on a case-by-case basis for covered institutions exhibiting signs of financial difficulty, such as those with a composite CAMELS rating of 3, 4 or 5. Covered institutions using deposit software or servicing from a vendor should determine whether vendor-supplied functionality will be provided.

The FDIC anticipates that it will receive a number of questions on implementing this rule. Questions and requests for telephone meetings may be submitted via e-mail to depositclaims@fdic.gov.

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