

MEMO

TO: The Board of Directors

FROM: Andrew Felton
Director, Division of Insurance and Research

DATE: November 18, 2025

RE: Designated Reserve Ratio for 2026

SUMMARY AND RECOMMENDATION

The Federal Deposit Insurance Act (FDI Act) requires that the FDIC Board of Directors (Board) designate a reserve ratio for the Deposit Insurance Fund (the DIF or the fund) and publish the designated reserve ratio, or DRR, before the beginning of each calendar year.¹ On October 22, 2024, the FDIC published in the *Federal Register* a notice setting the DRR at 2 percent for 2025.² Based on the analysis set forth below, staff recommends maintaining the DRR at 2 percent for 2026 and requests that the Board authorize publication of the attached notice to that effect in the *Federal Register*.

The Board is required to set the DRR in accordance with its analysis of certain statutory factors: risk of loss 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.³ Consistent with prior staff recommendations regarding the DRR, staff recommends consideration of one “other factor”: viewing the DRR as a minimum goal that will increase the likelihood of the DIF remaining positive throughout periods of significant losses due to bank failures, consistent with the FDIC’s comprehensive, long-term fund management plan. Consideration of this factor in setting the DRR would help reduce the risk of a large assessment rate increase during a period of unfavorable sector or economic conditions, when IDIs can least afford an increase.

The Board’s evaluation of the statutory factors may depend on its policy regarding the purpose of the DRR—the statute does not direct the Board on how to use the DRR. Based on current circumstances and historical analysis, staff continues to view the DRR as a long-range, minimum goal for the reserve ratio, consistent with the FDIC’s comprehensive, long-range DIF management plan.⁴

¹ Section 7(b)(3)(A) of the FDI Act, 12 U.S.C. § 1817(b)(3)(A).

² 89 FR 84349 (Oct. 22, 2024). The DRR is expressed as a percentage of estimated insured deposits. The DRR was first set at 2 percent for 2011 in a final rule approved by the Board on December 14, 2010. See 75 FR 79286 (Dec. 20, 2010), codified at 12 C.F.R. § 327.4(g). Following analysis of the statutory factors, the Board has set the DRR at 2 percent for every year since 2011.

³ Section 7(b)(3)(C) of the FDI Act, 12 U.S.C. § 1817(b)(3)(C).

⁴ See 75 FR 79286 (Dec. 20, 2010). See also 75 FR 66272 (Oct. 27, 2010).

Concur:

Matthew P. Reed
General Counsel

BACKGROUND

Governing statutes

Under the FDI Act, the Board has discretion to manage the DIF, including the level at which to set the DRR. The FDI Act requires that the Board consider the appropriate level for the DRR annually and publish the ratio designated before the beginning of each calendar year. The designated reserve ratio may not be less than 1.35 percent, and there is no upper limit on the DRR.⁵ Changes to the DRR must be made by notice-and-comment rulemaking.⁶

In setting the DRR for any year, the FDI Act requires that the Board:

- consider the risk of loss to the DIF in such year and future years, including historical experience and potential and estimated losses from insured depository institutions;
- consider economic conditions generally affecting insured depository institutions so as to allow the DRR to increase during more favorable economic conditions and to decrease during less favorable economic conditions, notwithstanding the increased risks of loss that may exist during such less favorable conditions, as determined to be appropriate by the Board;
- seek to prevent sharp swings in the assessment rates; and
- consider such other factors as the Board of Directors may determine to be appropriate.

The FDI Act does not set forth a purpose for the DRR, such as acting as a trigger for setting or changing assessment rates, recapitalizing the DIF, or paying dividends. Therefore, the Board has discretion to determine the purpose of the DRR.

Comprehensive, long-range management plan for the DIF

In December 2010, the Board set the DRR at 2 percent based on a comprehensive, long-range management plan for the DIF that was designed to: (1) reduce pro-cyclicality in the 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 assessment rates and dividends.⁷ The October 2010 NPR proposed setting the DRR at 2 percent. After consideration of comments received and based on an analysis of the statutory factors, the Board adopted the 2 percent DRR as final. Following consideration of the statutory factors, the Board has voted annually to maintain the DRR at 2 percent.

A DRR of 2 percent is an integral part of the FDIC's comprehensive, long-range management plan for the DIF. A fund that is sufficiently large is necessary to maintain a positive fund balance following a period of significant losses and to allow for the fund to recover through long-term, steady assessment rates. Requiring IDIs

⁵ Section 7(b)(3)(B) of the FDI Act, 12 U.S.C. § 1817(b)(3)(B). Section 7(e)(2) of the FDI Act provides for payment of dividends to insured depository institutions from the DIF when the reserve ratio exceeds 1.5 percent but grants the Board sole discretion to suspend or limit the declaration of payment of dividends (thus there is no statutory limit on the size of the DIF).

⁶ Section 7(b)(3)(A) of the FDI Act, 12 U.S.C. § 1817(b)(3)(A).

⁷ See 75 FR at 66272 (Oct. 27, 2010), describing the long-term plan; and 75 FR 79286, 79287 (Dec. 20, 2010), finalizing the designated reserve ratio.

to pay heightened deposit insurance assessment rates during an economic or banking downturn would be procyclical and only enhance the potential for reduced banking activity.⁸

It is also important that the DIF not decline to a level that could risk undermining public confidence in federal deposit insurance. The FDIC has significant authority to borrow from the U.S. Treasury to cover losses. Borrowing from the Treasury, however, while ensuring that sufficient liquid funds are available to resolve failing banks quickly, does not shore up the fund balance or the reserve ratio. The FDIC has viewed the Treasury line of credit as appropriate for covering unforeseen losses, not as a source of financing for anticipated losses.

In developing the long-range DIF management plan, staff analyzed historical fund losses and income data from 1950 to 2010 to determine how high the reserve ratio would have had to have been to maintain a positive fund balance and stable assessment rates before the onset of the banking crisis that occurred during the late 1980s and early 1990s and the banking crisis that began in 2008. The analysis concluded that moderate, long-term average industry assessment rates, combined with an appropriate dividend or assessment rate reduction policy, would have been sufficient to prevent the DIF from becoming negative during the crises.⁹

Staff found that the DIF reserve ratio would have had to exceed 2 percent before the onset of the first crisis and increase to approximately 2 percent prior to the crisis that began in 2008 to maintain a positive fund balance and stable assessment rates.¹⁰ Under the long-term plan and pursuant to the assessment rate schedule adopted by the FDIC in 2022, in lieu of dividends, progressively lower assessment rate schedules will come into effect when the reserve ratio exceeds 2 percent and 2.5 percent.¹¹ Staff continues to view the 2 percent DRR as a prudent long-range, minimum goal, consistent with the level needed to withstand a future period of significant losses up to the magnitude of past crises. Because analysis shows that a reserve ratio higher than 2 percent increases the chance that the DIF will remain positive when facing such losses, staff maintains that the 2 percent DRR should not be treated as a cap on the size of the DIF.

ANALYSIS OF STATUTORY FACTORS

As discussed above, the FDI Act requires that the Board set and publish the DRR annually and consider certain statutory factors for purposes of making such determination.¹² The analysis that follows considers each statutory factor, including one “other factor” that staff recommends for the Board’s consideration: allowing the DIF to grow to a level that will increase the likelihood the DIF will remain positive throughout periods of significant losses due to bank failures, consistent with the FDIC’s comprehensive, long-range DIF management plan.

Risk of loss to the DIF

Historically, the DIF reserve ratio has never reached 2 percent. The DIF balance stood at \$145.3 billion as of June 30, 2025, up \$16.1 billion from \$129.2 billion as of June 30, 2024. The increase in the DIF balance was primarily driven by assessments earned. Growth in the DIF balance and slower-than-average insured deposit

⁸ As used in this memorandum, 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).

⁹ See 75 FR at 66273 (Oct. 27, 2010).

¹⁰ The analysis set out in the December 2010 final rule shows that the DIF reserve ratio would have needed to be approximately 2 percent before the onset of the 2008 crisis and greater than 2.25 percent before the crisis of the late 1980s and early 1990s to maintain both a positive fund balance and stable assessment rates. See 75 FR at 79288.

¹¹ See 87 FR 64314 (Oct. 24, 2022) and 12 C.F.R. § 327.10(c) and (d).

¹² See section 7(b)(3)(C) of the FDI Act and 12 U.S.C. § 1817(b)(3)(C).

growth resulted in an increase in the reserve ratio of 15 basis points from 1.21 percent as of June 30, 2024, to 1.36 percent, above the statutory minimum reserve ratio of 1.35 percent, as of June 30, 2025.

Losses to the DIF from IDI failures have varied in recent years. Between 2016 and 2022, the DIF experienced low losses from bank failures. On average, three banks per year failed over this period, at an average annual cost to the fund of about \$172 million.¹³ By contrast, five banks failed in 2023, with estimated losses to the DIF of \$18.8 billion, excluding losses that are being recovered through the special assessment. From 2024 through June 30, 2025, four banks failed at an estimated cost to the DIF of \$817 million.¹⁴

Based on currently available information about troubled banks, trends in CAMELS ratings, failure rates, and loss rates, staff projects low-to-moderate losses relative to historical experience in the near term. The total number of institutions on the FDIC's Problem Bank List decreased by a net seven banks to 59 as of June 30, 2025, from 66 banks as of June 30, 2024.¹⁵ The number of problem banks represented 1.3 percent of total banks in the second quarter of 2025, which is within the normal range for non-crisis periods of 1 to 2 percent of all banks.

Future losses to the DIF remain uncertain and depend on factors described in more detail below. Despite the continued resiliency of the U.S. economy and the banking industry, the banking industry continues to face weakness in certain loan portfolios, economic uncertainty, and elevated unrealized losses.

Potential future losses can lower the DIF balance and bring the reserve ratio further from its long-term goal. In staff's view, the long-term, minimum goal should take into consideration high losses incurred during historical crisis periods, so that the DRR can be set at a level that would improve the DIF's ability to handle losses during any future periods of banking industry stress and reduce the possibility of increased deposit insurance assessment rates during a banking downturn.

Economic conditions affecting FDIC-insured institutions

Real U.S. GDP increased at a seasonally adjusted annual rate of 3.8 percent in the second quarter of 2025 after declining 0.6 percent in the first quarter.¹⁶ Inflation measures persisted above the Federal Reserve target. Financial market volatility subsided from April stress levels, as the Volatility Index returned to normal levels.¹⁷ While Treasury market volatility rose in April, such volatility subsided and yields ended the second quarter of 2025 only mildly higher than at the start of the quarter. The Federal Open Market Committee (FOMC) eased its target range for the federal funds rate by 25 basis points in September 2025 and again in October 2025, the first rate decreases by the FOMC since December 2024.¹⁸

The banking industry reported strong earnings over the past year. While the banking industry finished the second quarter of 2025 with slightly lower earnings quarter over quarter, the decline was primarily attributable to an increase in provision expenses related to a large bank acquisition, absent which net income

¹³ Loss estimates as of June 30, 2025. FDIC BankFind Suite: Bank Failures & Assistance Data, available at: <https://banks.data.fdic.gov/explore/failures>.

¹⁴ For loss estimates, see FDIC BankFind Suite: Bank Failures & Assistance Data, available at: <https://banks.data.fdic.gov/explore/failures>. Information on the special assessment available at: <https://www.fdic.gov/deposit-insurance-assessments/special-assessment-pursuant-systemic-risk-determination>.

¹⁵ Banks on the FDIC's Problem Bank list have a CAMELS composite rating of "4" or "5."

¹⁶ Bureau of Economic Analysis.

¹⁷ CBOE Volatility Index: VIX [VIXCLS], retrieved from FRED, Federal Reserve Bank of St. Louis, October 30, 2025.

¹⁸ Federal Reserve FOMC Statement (October 2025), available at: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20251029a.htm>.

would have increased. Net income decreased slightly in the second quarter of 2025 after increasing in the first quarter of 2025 and was higher than in the second half of 2024.

Asset quality metrics for the industry remained generally favorable, though weakness in certain portfolios persisted. While banks reported quarterly decreases in the past-due and nonaccrual rate for most portfolios in the second quarter of 2025, the rate for non-owner occupied commercial real estate, multifamily commercial real estate, and credit card portfolios remain well above their pre-pandemic averages.

Although these near-term economic conditions and recent trends in banking industry performance can inform the Board's decision on the DRR, staff believes the DRR should be viewed from a longer-term perspective. Twice within the past 40 years, serious economic dislocations have resulted in a significant deterioration in the condition of many IDIs and in a large number of bank failures at high cost to the DIF, and the failure of three large regional banks in 2023 reduced the DIF balance and reserve ratio.

In staff's view, the DRR should, therefore, be viewed as representing the minimum reserve ratio needed to ensure the DIF can withstand periodic economic downturns and elevated losses from bank failures. Taking these longer-term economic conditions into account, staff recommends setting the DRR at 2 percent, the lowest level that would have prevented a negative fund balance at any time since 1950 without raising assessment rates during the crises.

Preventing sharp swings in assessment rates

The FDI Act directs the Board to consider setting the DRR at a level that would prevent sharp swings in assessment rates.¹⁹ A minimum DRR of 2 percent is intended to allow the DIF to grow so that funds are available to absorb significant losses. This plan would help prevent sharp fluctuations in deposit insurance premiums over the course of the business cycle. In particular, it would help reduce the risk of large assessment rate increases during a crisis, when IDIs can least afford an increase.

Maintaining the DIF at a level that can withstand substantial losses

Staff continues to recommend that the Board consider one additional factor when setting the DRR: allowing the fund to grow sufficiently to increase the likelihood the DIF will remain positive throughout periods of significant losses. This factor is consistent with the FDIC's comprehensive, long-term DIF management plan. Having adequate funds available when entering a period of significant losses should reduce the likelihood the fund will become negative or that the FDIC will need to increase assessment rates, levy special assessments on the industry, or borrow from the U.S. Treasury. Further, ensuring the DIF maintains a level that can withstand substantial losses directly supports the statutory requirement of preventing sharp swings in assessment rates.

¹⁹ Section 7(b)(3)(C)(iii) of the FDI Act, 12 U.S.C. § 1817(b)(3)(C)(iii).

Balancing the statutory factors

In staff's view, the best way to balance the statutory factors (including the additional factor identified above) is to maintain the DRR at 2 percent.

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