FDIC Federal Deposit Insurance Corporation

MEMO

TO: The Board of Directors

FROM: Patrick Mitchell
Director, Division of Insurance and Research

DATE: May 20, 2025

RE: Restoration Plan Semiannual Update

RECOMMENDATION

During the second half of 2024, growth in the Deposit Insurance Fund (the DIF or the Fund) balance and slower-than-average insured deposit growth resulted in a 6 basis point increase in the reserve ratio, from 1.22 percent as of June 30, 2024, to 1.28 percent as of December 31, 2024.[1] Staff project that the reserve ratio is likely to reach the statutory minimum of 1.35 percent by year-end 2025, ahead of the statutory deadline of September 30, 2028. The precise timing of reaching 1.35 percent is unknown and depends on a number of factors, discussed below. Accordingly, staff recommend no changes to the Amended Restoration Plan and will continue to update the Board semiannually, or more frequently as conditions warrant, to determine if changes to the Amended Restoration Plan are necessary.

BACKGROUND

The Federal Deposit Insurance Act (the FDI Act) requires that the FDIC's Board of Directors (Board) adopt a restoration plan when the DIF reserve ratio falls below the statutory minimum of 1.35 percent or is expected to within 6 months, to restore the DIF to at least 1.35 percent within eight years.[2] Extraordinary growth in insured deposits during the first half of 2020 resulting from actions taken by monetary and fiscal authorities, and by individuals, businesses, and financial market participants in response to the Coronavirus 2019 (COVID-19) pandemic caused the DIF reserve ratio to decline below 1.35 percent as of June 30, 2020. Accordingly, on September 15, 2020, the Board adopted a Restoration Plan to restore the DIF to at least 1.35 percent within eight years and to maintain the assessment rate schedules in place at the time.[3]

On June 21, 2022, based on projections of the reserve ratio under different scenarios indicating that the reserve ratio was at risk of not reaching 1.35 percent by September 30, 2028, the Board amended the Restoration Plan (Amended Restoration Plan, or Plan).[4] In conjunction with the Amended Restoration Plan, the

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[1] The reserve ratio is calculated as the ratio of the net worth of the DIF (Fund balance) to the value of aggregate estimated insured deposits at the end of a given quarter. *See* 12 U.S.C. § 1813(y)(3).
[2] *See* 12 U.S.C. § 1817(b)(3)(B) and (E).
[3] *See* 85 FR 59306 (Sept. 21, 2020). Under the FDI Act, the restoration plan must restore the reserve ratio to at least 1.35 percent within 8 years of establishing the restoration plan, absent extraordinary circumstances. The FDIC will use data as of September 30, 2028, the first quarter-end date for which the reserve ratio will be known after September 15, 2028, the end date of the 8-year period.
[4] *See* FDIC Restoration Plan Semiannual Update, June 21, 2022. Available at: https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-sum-b-mem.pdf. *See also* 87 FR 39518 (July 1, 2022).

Board proposed, and subsequently finalized, an increase in initial base deposit insurance assessment rate schedules of 2 basis points to improve the likelihood that the reserve ratio would be restored to at least 1.35 percent by September 30, 2028.[5] The revised assessment rate schedules became effective January 1, 2023, and were applicable beginning the first quarterly assessment period of 2023.

The Amended Restoration Plan requires the FDIC to update its analysis and projections for the DIF balance and reserve ratio at least semiannually and, if necessary, recommend modifications to the Plan. This memorandum is the first semiannual update of 2025. Under the Amended Restoration Plan, the FDIC monitors potential losses, deposit balance trends, and other factors that affect the reserve ratio.

FIRST SEMIANNUAL UPDATE OF 2025

As of December 31, 2024, the DIF balance totaled $137.1 billion, up $7.9 billion from 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 growth in the second half of 2024 resulted in an increase in the reserve ratio of 6 basis points from 1.22 percent as of June 30, 2024, to 1.28 percent as of December 31, 2024.[6]

Table 1 shows the components of the reserve ratio from the second quarter of 2024, the most recent date of the analysis and projections presented in the prior semiannual update, through the fourth quarter of 2024.

Table 1–Fund Balance,
Estimated Insured Deposits, and Reserve Ratio[a]
[dollar amounts in billions]

	2Q 2024	3Q 2024	4Q 2024
Beginning Fund Balance	$125.3	$129.2	$133.1
Plus: Assessments Earned[b]	$3.2	$3.3	$3.2
Plus: Net Investment Contributions and Other Income[c]	$1.0	$1.2	$1.1
Less: Loss Provisions[b]	($0.3)	*	($0.4)
Less: Operating Expenses	$0.6	$0.6	$0.7
Ending Fund Balance[d]	$129.2	$133.1	$137.1
Estimated Insured Deposits	$10,636.4	$10,633.3	$10,672.4
Q-O-Q Growth in Est. Insured Deposits	(0.9%)	< (0.1%)	0.4%
Ending Reserve Ratio	1.22%	1.25%	1.28%

* Absolute value less than $50 million.
[a] Source: FDIC Quarterly Banking Profile for Fourth Quarter 2024, Table 1-C. Insurance Fund Balances and Selected Indicators.
[b] Assessments earned and loss provisions do not include amounts collected toward or the receivable associated with the special assessment to recover estimated losses attributable to protecting uninsured depositors pursuant to the March 2023 systemic risk determination.
[c] Net investment contributions include interest earned on investments and unrealized gains/losses on available-for-sale securities, while other income includes realized net gains on sale of investments, and all other income, net of expenses.
[d] Components of Fund balance changes may not sum to totals due to rounding.

[5] *See* 87 FR 39388 (July 1, 2022) and 87 FR 64314 (Oct. 24, 2022).
[6] Reporting amendments filed subsequent to the publication of the October 17, 2024 Restoration Plan Semiannual Update resulted in a decline in estimated insured deposits, resulting in an increase in the reserve ratio for the June 30, 2024 reporting period from 1.21 percent, as published, to 1.22 percent.

Assessments earned totaling $6.5 billion were the primary contributor to growth in the DIF in the second half of 2024.[7] Net investment contributions and other income added $2.2 billion to the DIF balance in the second half of 2024, driven by interest income. Negative loss provisions of $0.4 billion further increased the DIF balance during the second half of 2024.

As of December 31, 2024, annual insured deposit growth was 0.5 percent, significantly lower than the long-term historical average of 4.5 percent experienced from 2000 to 2019 and the slowest annual growth reported since 2013. While still well below historical average growth rates, insured deposit growth rates did increase slightly in the second half of 2024 relative to the first half of 2024. Insured deposits had flat growth in the quarter ending September 30, 2024, and increased by 0.4 percent in the quarter ending December 31, 2024.

As stipulated by the Amended Restoration Plan, below is an updated analysis with respect to potential losses, deposit balance trends, and other factors that affect the reserve ratio.

Potential losses

Losses from past bank failures and reserves related to anticipated future bank failures affect the reserve ratio by lowering the Fund balance. Such losses can vary from year to year. 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 $177 million.[8] In 2023, five banks failed with estimated losses to the DIF of $19.2 billion, excluding losses that will be recovered through the special assessment. Two banks failed in 2024 at an estimated cost to the DIF of $726 million. One bank has failed thus far in 2025 at an estimated cost to the DIF of $28.5 million.[9]

Based on current information about troubled banks, trends in CAMELS ratings, failure rates, and loss rates, FDIC staff project that failures for the five-year period ending in 2029 would cost the DIF approximately $3.3 billion. The total number of institutions on the FDIC's Problem Bank List was 66 at the end of the fourth quarter of 2024, which is the same amount as at the end of the second quarter of 2024.[10] Problem banks represented 1.5 percent of all banks, which is in the normal range of 1 to 2 percent of all banks during non-crisis periods.

U.S. GDP grew 2.4 percent at a real seasonally adjusted annualized rate in the fourth quarter of 2024 after 3.1 percent growth in the third quarter.[11] Downside risks to the economic outlook include economic

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[7] Assessments earned and loss provisions do not include amounts collected toward or the receivable associated with the special assessment to recover estimated losses attributable to protecting uninsured depositors pursuant to the systemic risk determination announced following the failures of Silicon Valley Bank and Signature Bank in March 2023. The FDIC is required by statute to recover such losses through a special assessment. See 12 U.S.C. § 1823(c)(4)(G)(ii). *See also* 88 FR 83329 (Nov. 29, 2023), Final Rule on the Special Assessment Pursuant to Systemic Risk Determination. Assessments earned and loss provisions exclude adjustments to such estimated losses.

[8] FDIC, Annual Report 2024, Assets and Deposits of Failed or Assisted Insured Institutions and Losses to the Deposit Insurance Fund, 1934-2024, page 142, available at: https://www.fdic.gov/financial-reports/2024-annual-report-full-report.

[9] "Millennium Bank, Des Plaines, Ill. Assumes All Deposits of Pulaski Savings Bank, Chicago, Ill," January 17, 2025, available at: https://www.fdic.gov/news/press-releases/2025/millennium-bank-des-plaines-ill-assumes-all-deposits-pulaski-savings-bank.

[10] Banks on the FDIC's Problem Bank List have a CAMELS composite rating of "4" or "5" due to financial, operational, or managerial weaknesses, or a combination of such issues.

[11] Bureau of Economic Analysis.

uncertainty, elevated inflation and interest rates, and tighter credit. A weaker economy could potentially reduce bank profitability, weaken credit quality, and limit loan growth.

The banking industry reported strong earnings in the second half of 2024. Net income increased in the fourth quarter of 2024, and asset quality metrics remained generally favorable despite continued weakness in certain portfolios. The industry's net interest margin increased for a second consecutive quarter and is now above its pre-pandemic average.[12] Longer-term interest rates increased in the fourth quarter after declining in the third quarter, decreasing the value of securities reported by banks and increasing unrealized losses. The overall past-due and nonaccrual rate increased from the prior quarter but is still below the pre-pandemic rate.

The downside risks described above could present challenges and have longer-term effects on the condition and performance of the banking industry. However, the increase in assessment rate schedules that became effective on January 1, 2023, will continue to strengthen the DIF, increasing the likelihood that the reserve ratio will reach the statutory minimum of 1.35 percent by the statutory deadline and promoting public confidence in federal deposit insurance. The FDIC will continue to monitor these risks and other data to project potential losses to the DIF and to assess their impact on the ability of the reserve ratio to return to 1.35 percent within 8 years of establishing the Plan.

Deposit trends

Insured deposits increased slightly in the second half of 2024, as a continued decline in fully insured brokered deposits was offset by steady growth in reciprocal deposits and increasing growth in other insured deposit balances.[13] Quarterly trends in insured deposit growth were below pre-pandemic averages.[14] Industry balances were flat between June 30, 2024, and September 30, 2024, below average third quarter growth of 1.0 percent. Industry balances increased 0.4 percent between September 30, 2024, and December 31, 2024, below average fourth quarter growth of 1.4 percent growth. Annual insured deposit growth has been below the long-run historical average rate of 4.5 percent since third quarter 2023.[15] Annual insured deposit growth slowed to 0.5 percent as of December 31, 2024, the slowest year-over-year growth rate reported by the industry since 2013.

The outlook for insured deposit growth remains uncertain and depends on several factors, including economic conditions, interest rates, and trends in credit and liquidity. Weaker economic conditions may lead to lower loan and deposit growth. Additionally, lower banking system reserves associated with tighter monetary policy could contribute to lower deposits. Changes in interest rates could also contribute to shifts in the composition of deposits. Staff will continue to closely monitor depositor behavior and the effects on insured deposits.

Other factors that affect the reserve ratio

The FDIC also monitors other factors that affect the reserve ratio, including changes in bank risk profiles, which influence assessment rates; growth in the assessment base; DIF investment income and realized and unrealized gains and losses on investments; and operating expenses.

Assessments earned continue to be the main contributor to growth in the DIF balance. The weighted average assessment rate for all banks was 6.03 basis points for the assessment period ending December 31, 2024. The weighted average assessment rate is down from approximately 6.18 basis points for the period ending June 30, 2024, largely reflecting improved earnings and an increase in core deposits among large banks.

[12] The "pre-pandemic average" is calculated as the average from first quarter 2015 through fourth quarter 2019.
[13] Fully insured brokered deposits do not include brokered reciprocal deposits.
[14] "Pre-pandemic averages" are calculated as the average respective quarters for 2015 through 2019.
[15] Long-term historical average is based on data from 2000 through 2019.

Assessments earned of $6.5 billion were equal to the amount earned in the first half of 2024.[16] While the weighted average assessment rate was lower in the second half of 2024, the DIF assessment base increased 1.7 percent.

Net investment contributions and other income totaled $2.2 billion in the second half of 2024. Interest income from DIF investments drove net investment contributions in both quarters in the second half of 2024, adding $1.1 billion in both the third and fourth quarters of 2024. Unrealized gains on investment securities further increased the DIF balance by $37 million in the second half of 2024 and other income added $38 million. While subject to changing market expectations of interest rates and other factors, staff expect net investment contributions to remain relatively steady in the near term as the DIF balance increases and the yield on the DIF portfolio gradually declines in line with market expectations.

Projections for Fund balance and reserve ratio

Staff continues to project that the reserve ratio is likely to reach the statutory minimum of 1.35 percent ahead of the 8-year statutory deadline. While subject to uncertainty, staff project that the reserve ratio will reach 1.35 percent by year-end 2025, assuming that, consistent with current trends, insured deposits grow below the historical average rate in the near-term, losses to the DIF associated with bank failures do not materially exceed staff estimates, and net investment contributions do not materially deviate from current market expectations. However, it is possible that the reserve ratio could remain below 1.35 percent beyond 2025, particularly if losses for past and future bank failures increase beyond staff estimates. Reaching the statutory minimum reasonably promptly and in advance of the statutory deadline strengthens the DIF so that it can better withstand unexpected losses and reduces the likelihood of pro-cyclical assessments.

FUTURE UPDATES

This memorandum is the first semiannual update in 2025. Staff project that the reserve ratio will reach the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028, though the precise timing is uncertain and depends on a number of factors. Accordingly, staff recommend no changes to the Plan.

As noted in prior semiannual updates to the Board, loss and reserve ratio projections are subject to considerable uncertainty. Losses to the DIF could be higher or lower than anticipated if economic conditions worsen or downside risks facing banks prove more or less severe than anticipated. Insured deposit growth could be higher or lower than expected based on future economic conditions and depositor behavior. Net investment contributions could be positive or negative in the near-term, and the magnitude of such movement is uncertain and depends on the timing and magnitude of interest rate changes as well as DIF liquidity needs.

[16] As described above, assessments earned and loss provisions do not include amounts collected toward or the receivable associated with the special assessment to recover estimated losses attributable to protecting uninsured depositors pursuant to the systemic risk determination announced following the failures of Silicon Valley Bank and Signature Bank in March 2023.

Under the Amended Restoration Plan, staff will continue to monitor potential losses, deposit balance trends, and other factors that affect the reserve ratio, and update projections for the Fund balance and reserve ratio at least semiannually while the Plan is in effect. Staff continue to believe that frequent updates are warranted to incorporate updated information and expectations and because loss and reserve ratio projections are subject to considerable uncertainty.

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