FDIC Advisory Committee on Community Banking
October 28, 2020

Deposit Growth, the DIF Restoration Plan, and the 2020 Academic Challenge
Growth in liabilities has been driven by domestic deposits
Banks have reported growth in both nonmaturity deposits and deposit balances in large accounts.

Source: FDIC.
Noncommunity bank deposit growth took off in first quarter, while community bank deposit growth took off in second quarter.

Source: FDIC.

Note: Adjusted for mergers and bank designation changes between each quarter.
Growth in noncore liabilities has been limited, growth in liquid assets has been substantial.
Noncore liabilities fell in second quarter, while growth in liquid assets accelerated
Insured Deposit Growth in the First Half of 2020 Equaled Deposit Growth in the Previous Three Years

Annual Growth, December to December, Insured Deposits ($ Trillions)

- 2014: 3.3%
- 2015: 5.2%
- 2016: 6.1%
- 2017: 3.5%
- 2018: 5.1%
- 2019: 3.9%
- 20Q1: 17.9%
- 20Q2: 33.0%

$1 trillion over three years
$1 trillion over two quarters

Source: FDIC.
Insured deposit growth caused the DIF reserve ratio to decline below the statutory minimum of 1.35 percent

<table>
<thead>
<tr>
<th></th>
<th>Fourth Quarter 2019</th>
<th>First Quarter 2020</th>
<th>Second Quarter 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Fund Balance</td>
<td>108.9</td>
<td>110.3</td>
<td>113.2</td>
</tr>
<tr>
<td>Plus: Net Assessment Revenue</td>
<td>1.3</td>
<td>1.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Plus: Investment Income(^a)</td>
<td>0.5</td>
<td>2.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Less: Loss Provisions</td>
<td>-0.1</td>
<td>(^*)</td>
<td>(^*)</td>
</tr>
<tr>
<td>Less: Operating Expenses</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Ending Fund Balance(^b)</td>
<td>110.3</td>
<td>113.2</td>
<td>114.7</td>
</tr>
<tr>
<td>Estimated Insured Deposits</td>
<td>7,815.2</td>
<td>8,164.2</td>
<td>8,837.3</td>
</tr>
<tr>
<td>Ending Reserve Ratio</td>
<td>1.41%</td>
<td>1.39%</td>
<td>1.30%</td>
</tr>
</tbody>
</table>

Dollars in Billions

\(^a\) Includes unrealized gains/losses on available-for-sale securities.
\(^b\) Components of fund balance changes may not sum to totals due to rounding.

\(^*\) = Less than $50 million
The Restoration Plan adopted by the FDIC Board has three components

1. The FDIC will monitor deposit balance trends, potential losses, and other factors that affect the reserve ratio.

2. The FDIC will maintain the current schedule of assessment rates for all IDIs.

3. At least semiannually, the FDIC will update its analysis and projections for the fund and, if necessary, recommend any modifications to the Plan, such as increasing assessment rates.
Assuming normal insured deposit growth, the DIF can absorb modest losses and reach 1.35 percent within 8 years

Projected Reserve Ratio at the End of 8 Years Assuming Different Rates of Insured Deposit Growth

<table>
<thead>
<tr>
<th>Annual Insured Deposit Growth Rate [percent]</th>
<th>Industry Insured Deposits</th>
<th>DIF Reserve Ratio [percent]</th>
<th>DIF Balance needed to reach 1.35 percent reserve ratio</th>
<th>Amount available to absorb losses and reach 1.35 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5</td>
<td>10,835</td>
<td>1.56</td>
<td>145.7</td>
<td>23.7</td>
</tr>
<tr>
<td>3.0</td>
<td>11,279</td>
<td>1.50</td>
<td>151.7</td>
<td>17.7</td>
</tr>
<tr>
<td>3.5</td>
<td>11,739</td>
<td>1.44</td>
<td>157.9</td>
<td>11.5</td>
</tr>
<tr>
<td>4.0</td>
<td>12,215</td>
<td>1.39</td>
<td>164.3</td>
<td>5.1</td>
</tr>
<tr>
<td>4.5</td>
<td>12,708</td>
<td>1.33</td>
<td>170.9</td>
<td>(1.5)</td>
</tr>
</tbody>
</table>

Dollars in Billions

* Assumes that: (1) the assessment base grows 4.5 percent, annually; (2) the average assessment rate remains at 4.0 basis points; (3) interest income on the deposit insurance fund balance is zero; and (4) operating expenses grow at 1 percent per year.
2020 Academic Challenge:
The Effects of Community Banks on Local Economic Development

• Bring real-world banking policy questions into the classroom
• Nationwide competition for undergraduate students
• This year’s Challenge Question:

“What are the effects of community banks on local economic development?”
2020 Academic Challenge: Objectives

• Increase understanding of the banking industry and the FDIC’s role of ensuring the stability of our nation’s financial system
• Engage in critical dialogue with undergraduate scholars
• Promote interest in future FDIC careers in the fields of economics, accounting, and finance
• Build relationships between the FDIC, students, and the academic community
2020 Academic Challenge: Logistics

• Teams consist of 4 or 5 students with a faculty advisor
• Two rounds:
  • Written component, six pages
  • Five finalists invited to Washington to present their work
• FDIC provides:
  • Prompts to help students approach the question;
  • Grading rubric on how submissions will be evaluated;
  • Public datasets and codebook that may be used by students to engage the material.
2020 Academic Challenge: Timeline

• Competition Opened on September 18, 2020
• First Q&A session held on October 7, 2020
• Second Q&A session to be held on November 12, 2020
• Submission deadline: November 20, 2020
• Finalist Selections: February 2021
• Finalist Presentations: April 16, 2021
• For more information visit: fdic.gov/academicchallenge