Statement of Martin J. Gruenberg
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Update of Projected Deposit Insurance Fund Losses, Income, and Reserve Ratios for the Restoration Plan

September 20, 2016

The Deposit Insurance Fund balance stood at almost $78 billion at the end of June, resulting in a reserve ratio of 1.17 percent. This is the highest reserve ratio in more than eight years. Crossing the 1.15 percent threshold represents a significant milestone for the fund, which has had a strong recovery from its negative $21 billion low-point at the end of 2009.

The improvement in the Deposit Insurance Fund since the financial crisis reflects progress in implementing the long-term fund management plan put into place by the FDIC in the post-crisis period, as well as improving conditions in the banking industry.

In early 2011, as part of that plan, the FDIC Board decided to reduce overall assessment rates when the reserve ratio reached 1.15 percent, and the Board reaffirmed that decision in a rule we adopted in April of this year. Starting this quarter, a large majority of banks will pay lower deposit insurance assessments. Assessment rates for 93 percent of banks with less than $10 billion in assets are expected to decline. On average, regular quarterly assessments are expected to decline by about one-third for these smaller institutions.

The long-term plan also envisioned that the FDIC Board would adopt measures to ensure that the reserve ratio reaches the statutory minimum set by the Dodd-Frank Act – 1.35 percent – by the statutory deadline of September 30, 2020. In March of this year, the Board adopted a rule designed to achieve that goal. Under that rule, now that the reserve ratio has reached 1.15 percent, banks with $10 billion or more in assets will pay temporary surcharges to bring the reserve ratio to the statutory minimum. The FDIC projects that the surcharges will extend over eight quarters.

Although large banks will pay surcharges in addition to their regular quarterly assessments, approximately one-third of large banks are still expected to pay lower total assessments because of the reduction in regular assessment rates.

Small banks will receive credits for the portion of their assessments that contribute to the increase in the reserve ratio from 1.15 percent to 1.35 percent.

As I stated when the Board adopted the assessment rules earlier this year, the FDIC is taking a balanced approach in raising the reserve ratio to 1.35 percent.

The staff currently projects that the reserve ratio should reach 1.35 percent in 2018, about two years ahead of the statutory deadline. By meeting this target earlier than the mandate, we reduce the risk that the FDIC will have to raise rates unexpectedly in the event of a future period of stress and help ensure stable and predictable assessments.

We have made substantial progress in restoring the health of the Deposit Insurance Fund, an achievement from which I think both the FDIC and the banking industry should take satisfaction.