

Statement on the Deposit Insurance Fund Restoration Plan Semiannual Update

Acting Chairman Travis Hill

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In September 2020, the Deposit Insurance Fund (DIF) reserve ratio fell below the statutory minimum of 1.35 percent. On account of the unprecedented COVID-era fiscal and monetary stimulus, the growth of insured deposits (the denominator of the reserve ratio) far outpaced the growth in the DIF net worth (the numerator of the reserve ratio), which is primarily driven by assessment revenue.

The resulting Restoration Plan requires the FDIC to update its analysis and projections for the DIF balance and reserve ratio and report to the FDIC Board at least semiannually. Since the previous update, the DIF reserve ratio increased by 6 basis points from 1.22 percent as of June 30, 2024, to 1.28 percent as of December 31, 2024. We will have a further update next week with the release of the first quarter Quarterly Banking Profile. Staff project that the reserve ratio is likely to reach the statutory minimum of 1.35 percent ahead of the statutory deadline and recommend no changes to the Restoration Plan.

Separate from, but related to, the Restoration Plan, I think we should consider whether insured deposits is the right metric to measure the DIF's exposure to losses. The FDIC moved away from charging assessments on the basis of insured deposits years ago,¹ creating a mismatch in how assessments are charged and how the health of the DIF is measured. One alternative permitted by the FDI Act is to use the assessment base² rather than insured deposits as the denominator of the reserve ratio,³ and I have asked staff to analyze this option for future consideration.

¹ See, e.g., Federal Deposit Insurance Corporation Staff Studies, A History of Risk-Based Premiums at the FDIC, Report No. 2020-01 (January 2020).

² The assessment base generally equals total consolidated assets minus tangible equity (*i.e.*, total liabilities). See 12 U.S.C. § 1817 note.

³ 12 U.S.C. § 1817(b)(3)(B) ("The reserve ratio designated by the Board of Directors for any year may not be less than 1.35 percent of estimated insured deposits, or the comparable percentage of the assessment base. . . ."). If the FDIC were to change the reserve ratio in this manner, the minimum reserve ratio would be recalibrated once at the outset to a ratio that achieved a comparable degree of resilience as 1.35% of insured deposits.

I would like to thank the FDIC staff for their work on the Restoration Plan and their continued efforts to monitor factors that affect the reserve ratio.