FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC PROPOSES INCREASE IN THE PREMIUM BANKS PAY FOR DEPOSIT INSURANCE

The FDIC's Board of Directors today issued for public comment a proposal to increase the premium that banks would pay in 1991 for their deposit insurance coverage.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the premium paid by banks into the Bank Insurance Fund (BIF) was increased from 8.3 cents for every $100 of insured deposits to 12 cents per $100 this year and to 15 cents per $100 in 1991. FIRREA gave the FDIC limited discretionary authority to set an even higher premium under certain conditions. The BIF is funded solely by premiums paid by banks and income realized from the investment of those funds.

At the Board meeting today, the FDIC asked for public comment on a plan to increase the premium paid in 1991 by BIF member banks and savings banks from the statutory 15 cents per $100 to 19.5 cents per $100. The contemplated 7.5 cents increase from the current level of 12 cents per $100 would be the largest increase in premium levels in FDIC history. A premium rate of 19.5 cents per $100 also would be the highest in FDIC history.

FDIC Chairman L. William Seidman said the proposed discretionary increase is being considered to help boost the BIF's reserves to the target level set by Congress in FIRREA — $1.25 for every $100 of insured deposits — within a reasonable time period. Mr. Seidman noted that the BIF reserve ratio has declined from $1.10 per $100 of insured deposits at year-end 1987 to 80 cents per $100 at year-end 1988 and 70 cents per $100 at the end of last year. The reserve ratio is expected to decrease again in 1990.

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"The level of reserves in the fund is historically low and the unfortunate trend in recent years has been downward," Mr. Seidman said today. "Clearly, this is unacceptable and a change in direction is needed. We believe our proposal will address concerns about the strength of the fund without imposing dramatic new costs or changes on the industry."

Mr. Seidman said the proposed increase would raise banking industry premiums by an estimated $1.1 billion in 1991 beyond the scheduled increase in premiums to 15 cents per $100. He noted that the $1.1 billion that could be raised under the FDIC proposal is less than one-half of one percent of the industry's year-end 1989 equity capital. In addition, the estimated $1.1 billion premium increase is far less than the $5 billion of losses sustained by BIF in 1988 and 1989 from bank failures and bank assistance transactions, primarily in the Southwest.

FIRREA gave the FDIC Board authority to increase premiums when the ratio of BIF reserves to insured deposits is constant or falling on a calendar year basis and when two other conditions are met. One is that the FDIC Board determines that the BIF reserve ratio in the future is expected to be less than $1.25 for every $100 of deposits. The other is that the Board finds that the higher premium is appropriate to bring the reserve ratio up to $1.25 per $100 within a reasonable time frame. Both conditions are met under the current situation.

Comments on the proposal will be accepted for 30 days after it appears in the Federal Register. The FDIC in particular is seeking comments on the effects of the assessment increase on bank earnings and capitalization.

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