FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC INCREASES THE PREMIUM BANKS PAY FOR DEPOSIT INSURANCE; ALSO ISSUES MID-YEAR FINANCIAL RESULTS FOR THE BANK FUND

The FDIC's Board of Directors today agreed to increase the premium that banks will pay in 1991 for their deposit insurance coverage.

Currently, the premium paid by commercial banks and savings banks into the Bank Insurance Fund (BIF) is 12 cents per $100. The FDIC Board today agreed to increase the premium to 19.5 cents per $100 starting in 1991. The premium rate for members of the Savings Association Insurance Fund is set by law at 23 cents per $100 in 1991.

The BIF is funded solely by premiums paid by banks and income realized from the investment of those funds. The 7.5 cents increase in premiums will be the largest in FDIC history. The premium rate of 19.5 cents per $100 also will be the highest ever.

At the same Board meeting, the agency's staff presented financial results for the BIF fund as of June 30, 1990. The fund began 1990 with a balance of $13.2 billion, the equivalent of 70 cents in reserve for every $100 of deposits insured. As of June 30, the fund's balance decreased to $11.4 billion, or about 60 cents for every $100 of deposits insured.

FDIC Chairman L. William Seidman said: "This mid-year status report confirms that additional premiums are necessary."

Mr. Seidman added: "We are encouraged that Congress is considering ways to give the FDIC additional flexibility to decide when to change the premiums and by how much. In many ways, the strength of the fund in the future will depend on our flexibility to respond to a changing economy and industry conditions."

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The FDIC Chairman also stressed that the BIF fund cannot be strengthened only by increasing the premiums paid by banks. "There are no two ways about it. The insurance fund is under strain because of the increased costs of handling bank failures. For that reason, we will continue working with Congress to enact overdue structural changes that would restrict losses to the insurance fund and give the banking industry additional sources of income and profits."

Current law sets the premiums according to an annual schedule, although the FDIC is given limited authority to set a higher premium under certain conditions. The new premium rate of 19.5 cents per $100 for 1991 is higher than the scheduled statutory premium of 15 cents per $100.

The BIF fund had a net operating loss of $4.2 billion in 1988 -- its first ever -- followed by a loss of $851 million in 1989. During the first six months of this year, losses increased another $1.8 billion, bringing the size of the fund down 14 percent to $11.4 billion.

Mr. Seidman said: "Based on this report, the loss for 1990 will be closer to $3 billion than to the $2 billion estimated some months ago. The additional loss estimate is due to an increased number of banks that may fail and larger losses due to eroding real estate values."

The new report also showed that the number of BIF-insured "problem banks" declined from 1,109 at year-end 1989 to 1,034 as of mid-year 1990. The estimated amount of BIF-insured deposits increased in the first six months of the year by about six percent, to nearly $2 trillion.

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