# Statement by Martin J. Gruenberg, Member, FDIC Board of Directors on the FDIC Deposit Insurance Fund Restoration Plan

Last Updated: September 15, 2020

The Federal Deposit Insurance Act requires that the FDIC maintain a minimum reserve ratio for the Deposit Insurance Fund (DIF) of 1.35 percent.[1] The reserve ratio is the ratio of the funds in the DIF to estimated insured deposits for all FDIC-insured banks. The purpose of the reserve ratio is to ensure that the DIF has sufficient resources to meet the FDIC's current and projected deposit insurance obligations.

The Federal Deposit Insurance Act also requires that, if the reserve ratio falls below the 1.35 percent minimum, the FDIC must establish and implement a Deposit Insurance Fund Restoration Plan within 90 days. The Restoration Plan must provide that the DIF will meet or exceed the minimum reserve ratio by the end of the eight-year period beginning upon its implementation. In addition, the FDIC must publish in the Federal Register a detailed analysis of the factors considered and the basis for the actions taken with regard to the Plan.[2]

During the first half of 2020, estimated insured deposits grew by 4.5 percent in the first quarter and by 8.2 percent in the second quarter. These were two of the highest quarterly growth rates since quarterly reporting began in 1991.[3] As a result, the denominator of the reserve ratio – insured deposits - grew very rapidly, while the numerator – the funds in the DIF – grew at a normal rate. The reserve ratio thus declined significantly from 1.41 percent at year-end 2019 to1.30 percent in the second quarter of 2020, well below the required 1.35 percent minimum.[4]

As the Restoration Plan on which the FDIC Board will vote today points out, the extraordinary growth in insured deposits "largely stemmed from actions undertaken by depositors, both businesses and individuals, as well as government policy actions in response to the Coronavirus2019 (COVID-19) pandemic."[5]

The Restoration Plan asserts that insured deposit growth rates are expected to decline compared to the extraordinary growth rates experienced during the first two quarters of 2020. However, the Plan also points out that "While insured deposit growth rates are expected to decline, deposit balances, including insured deposits, could remain elevated until the factors that supported their recent growth decline from their current levels, particularly monetary and fiscal policy and economic uncertainty."[6]

The Restoration Plan also discusses potential losses to the DIF balance from bank failures: "Losses from past and future bank failures affect the reserve ratio by lowering the fund balance…. Future losses to the DIF remain uncertain as the length of the pandemic and the resulting potential economic and banking effects are unclear."[7] Other factors that affect the DIF balance include changes in bank risk profiles that affect assessment rates, increased provisions for future losses, growth in the assessment base, investment income, and operating expenses.[8]

The conclusion of the Restoration Plan is that, while subject to considerable uncertainty, raising assessments based on two quarters of extraordinary insured deposit growth would be premature. The Plan also concludes that frequent updates to the Board will be necessary because loss and reserve ratio projections, particularly in the current environment, are subject to considerable uncertainty.

As the Restoration Plan finally states, “Future updates to the Board may result in changes in assumptions that result in different assessment revenue needs. Consequently, in order to fulfill the statutory requirement to return the fund reserve ratio to 1.35 percent, the FDIC may need to adopt higher assessment rates than those included in the current assessment rate schedule….Given the considerable uncertainty of long range projections and because the statutory deadline is 8 years away, the Restoration Plan maintains the current assessment rate schedule for all IDIs [insured depository institutions].”[9]

I believe the Restoration Plan before the Board today takes a balanced approach. It underscores the uncertainty of the outlook, the need for the FDIC to monitor future developments closely, and the potential necessity for the Board to take action going forward to ensure the adequacy of the Deposit Insurance Fund. For that reason, I will vote to approve this Restoration Plan.

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[1]12 U.S.C. 1817(b)(3)(B).

[2]12 U.S.C. 1817(b)(3)(E).

[3]Restoration Plan at 13.

[4]Restoration Plan at 11.

[5]Id. at 13.

[6]Id. at 16.

[7]Id. at 17.

[8]Id. at 18. See also Federal Deposit Insurance Corporation (FDIC) 2017. Crisis and Response: An FDIC History, 2008 – 2013. Washington, D.C., Chapter 5, Deposit Insurance: Fund Management and Risk-Based Deposit Insurance Assessments. https://www.fdic.gov/bank/historical/crisis/.

[9]Id. at 21.