FDIC Deposit Insurance Fund Restoration Plan: Semiannual Update

Last Updated: June 15, 2021

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.[2] 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.[3]

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.[4] 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 to 1.30 percent in the second quarter of 2020, well below the required 1.35 percent minimum.[5]

As required by the Federal Deposit Insurance Act, the FDIC Board adopted a Restoration Plan on September 15, 2020, to restore the DIF to at least 1.35 percent by September 30, 2028.[6] The Plan requires the FDIC to update its analysis and projections for the DIF balance and reserve ratio at least semiannually.[7]

The case before the FDIC Board today is the first semiannual update of the Plan.

As the update notes, since the FDIC Board adopted the Plan, insured deposit growth decelerated compared to the extraordinary growth experienced in the first half of 2020, but remained above average, with significant growth in insured deposits during the first quarter of 2021 due to additional fiscal stimulus and continued elevated savings rates. Over the three quarters since the Plan was adopted, insured deposits grew by $683.2 billion (or 7.7 percent), more than twice the average growth experienced in a typical three-quarter period.[8] This resulted in a reserve ratio of 1.25 percent as of March 31, 2021.[9]

While insured deposit balances may remain elevated to some extent in the near future, FDIC staff expect the surge of insured deposits resulting from extraordinary growth associated with the pandemic to eventually recede and insured deposit growth rates to normalize in the medium to long-term. However, as the update also notes, several factors, such as slower than expected economic growth, market volatility, or additional fiscal and monetary stimulus could result in increased insured deposit growth or losses to the fund.[10]

Given the uncertainty of the outlook, and the fact that the reserve ratio has already fallen to 1.25 percent, well below the 1.35 percent statutory minimum, it will be essential for the FDIC staff to continue to update its projections for the fund balance and reserve ratio at least semiannually while the Plan is in effect, keep the FDIC Board regularly informed, and to recommend rate adjustments as necessary.

I would like to thank the FDIC staff for their careful analysis and thoughtful presentation to the Board.

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

[2]*See* 12 U.S.C. 1813(y)(3).

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

[4]FDIC Notice of Establishment of Restoration Plan, 85 FR 59306, 59307 (Sept. 21, 2020)

[5]Id. at 59306.

[6]https://www.fdic.gov/news/financial-institution-letters/2020/fil20090.html; 85 FR at 59307, fn. 6.

[7]85 FR at 59306.

[8]Memorandum to the FDIC Board of Directors re: Restoration Plan Semiannual Update, dated June 15, 2021, at 1, 5-6.

[9]Id. at 1-3.

[10]Id. at 10.