PRESS RELEASE
Federal Deposit Insurance Corporation

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Banks May Soon Pay More for Deposit Insurance, Powell Says

Higher BIF Assessment Rates Could Take Effect Next Year

With the Bank Insurance Fund's reserve ratio trending toward a key statutory tripwire and Congress considering deposit insurance reforms, some change in the way banks pay for their deposit insurance is more likely, said Federal Deposit Insurance Corporation (FDIC) Chairman Don Powell today in remarks at the National Bankers Association's Annual Convention in Los Angeles.

"The era in which participation in FDIC deposit insurance has no financial impact on most banks could come to an end next year," said Powell. He described how the Bank Insurance Fund's (BIF) statutory reserve ratio of the fund balance to insured deposits has declined from 1.32 percent in September 2004 to 1.26 percent as of June 2005. If the ratio declines below 1.25 percent, the FDIC is required to assess premiums to make up the shortfall.

Powell said that deposit insurance assessment rates for the BIF are likely to rise next year if insured deposit growth continues as it has for the past year, or if the number of problem banks begins to increase. "Higher assessment rates could happen as early as the beginning of next year," he said. "We will know more after the FDIC's Board meets in November to decide rates for the first half of 2006."

"If Congress implements deposit insurance reform, there would be other changes," Powell said. "An assessment credit for banks that contributed to the recapitalization of the FDIC funds in the 1990s is one element of the current reform package. Other banks would incur some small, steady premium based on their risk profile. The FDIC would manage its reserve ratio within a range, instead of being tied to a hard target that could require much higher premiums if there is an unexpected draw on our reserves."

Powell also expressed to the National Bankers Association the FDIC's commitment to preserve the number of minority depository institutions, and to provide training and educational opportunities for these institutions. "Minority-owned institutions often play a unique role in promoting the economic viability of our underserved communities," he said. "We must ensure that they remain strong and continue to grow."

The FDIC maintains a Minority Depository Institutions Program webpage dedicated to issues, information, and programs relevant to minority depository institutions. The FDIC also sponsors a Minority Bankers Roundtable Series to improve communications and enhance outreach efforts with the 95 minority-owned depository institutions it supervises. These roundtables provide a forum for the FDIC to hear first-hand these institutions' views on regulatory and supervisory issues.