PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC Reports on Privatizing Deposit Insurance and Effectiveness of *Money Smart* Financial Education Program

The results of two studies – one on the feasibility and consequences of privatizing deposit insurance and the other on the effectiveness of the FDIC's *Money Smart* financial education program – are highlighted in the current issue of ***FDIC Quarterly***, released today. The first study was requested by Congress in the Federal Deposit Insurance Reform Conforming Amendments Act of 2005.

In its study on privatizing deposit insurance, the FDIC reports that privatization proponents argue this approach would decrease moral hazard, reduce unnecessary oversight of depository institutions, and remove the taxpayer from responsibility for losses arising from systemic failures. However, the FDIC found that privatization may not eliminate moral hazard as it is inherent in all types of insurance. Further, recent legislative changes have strengthened the FDIC's ability to mitigate moral hazard. According to the study, much of the regulatory burden on banks is unrelated to deposit insurance, and would not necessarily end with privatization. Finally, government intervention in the case of a systemic failure is a policy issue, not a deposit insurance issue.

In its article "Banking on Financial Education," the FDIC reports on how the rapidly expanding choices of financial products and services have increased the need for financial education. The piece highlights the positive effects of the FDIC's *Money Smart* curriculum on consumer money-management attitudes and behaviors. Importantly for bankers, the study shows that financial education can strengthen consumers' relationships with banks and improve their financial condition and outlook. The article also describes the many ways banks are offering financial education and offers suggestions for banks as they try to enhance their programs.

This issue of the ***FDIC Quarterly*** also features results from the ***Quarterly Banking Profile*** released on August 22, 2007.