PRESS RELEASE

Federal Deposit Insurance Corporation ● Each Depositor insured to at least $250,000

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FDIC Board Adopts Restoration Plan -- Proposes Higher Assessments on Insured Banks

Also, Proposes Improvements to the Risk-based Assessment System

The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) today voted to adopt a restoration plan accompanied by a notice of proposed rulemaking that would increase the rates banks pay for deposit insurance, while at the same time making adjustments to the system that determines what rate a bank pays the FDIC.

"The U.S. banking industry has the willingness and capacity to provide the necessary backing to the insurance fund," said FDIC Chairman Sheila C. Bair. "The entire capital of the banking industry stands behind the fund, as does the full faith and credit of the United States Government. The public can be sure that we will always have enough money to protect their insured deposits."

Currently, banks pay anywhere from five basis points to 43 basis points for deposit insurance. Under the proposal, the assessment rate schedule would be raised uniformly by 7 basis points (annualized) beginning on January 1, 2009. Beginning with the second quarter of 2009, changes would be made to the deposit insurance assessment system to make the increase in assessments fairer by requiring riskier institutions to pay a larger share. Together, the proposed changes would improve the way the system differentiates risk among insured institutions and help ensure that the reserve ratio returns to at least 1.15 percent by the end of 2013.

Proposed changes to the assessment system include assessing higher rates to institutions with a significant reliance on secured liabilities, which generally raises the FDIC's loss in the event of failure without providing additional assessment revenue. The proposal also would assess higher rates for institutions with a significant reliance on brokered deposits but, for well-managed and well-capitalized institutions, only when accompanied by rapid asset growth. Brokered deposits combined with rapid asset growth have played a role in a number of costly failures, including some recent ones.

The proposal also would provide incentives in the form of a reduction in assessment rates for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital.

"Like any insurance company, we've identified activities that have increased or reduced the cost of insurance, and as a result, want to factor them into our determination of assessment rates," Bair said.

The FDIC Board of Directors also voted to maintain the Designated Reserve Ratio at 1.25 percent as a signal of its long term target for the fund.

Comments on the proposal are due no later than 30 days after publication in the *Federal Register*.

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Attachment:
Restoration Plan, Notice of Proposed Rulemaking on Risk-Based Assessments, and Designated Reserve Ratio for 2009 - PDF 641k (PDF Help)