PRESS RELEASE

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

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FDIC Board Sets a Two Percent Designated Reserve Ratio as Part of a Comprehensive Plan for Fund Management

FOR IMMEDIATE RELEASE

The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) today voted on a final rule to set the insurance fund's designated reserve ratio (DRR) at two percent of estimated insured deposits.

FDIC Chairman Sheila C. Bair stated, "Given previous statutory limitations on the ability of the FDIC to build reserves in excess of 1.25%, our resources heading into the financial crisis were woefully inadequate. This new rule will allow us to better prepare for the future. It will also give the industry greater certainty around the premium structure. While the two percent designated reserve ratio established by the board is higher, the trade-off will be lower, more predictable premiums over time. By building higher reserves during the good times, we will significantly reduce the risk of pro-cyclical assessments when the inevitable next downturn occurs."

The Dodd-Frank Wall Street Reform and Consumer Protection Act set a minimum DRR of 1.35 percent, and left unchanged the requirement that the FDIC Board set a DRR annually. The Board must set the DRR according to the following factors: risk of loss to the insurance fund; economic conditions affecting the banking industry; preventing sharp swings in the assessment rates; and any other factors it deems important.

The decision to set the DRR at two percent was based on a historical analysis of losses to the insurance fund. The analysis showed in order to maintain a positive fund balance and steady, predictable assessment rates, the reserve ratio must be at least two percent as a long-term, minimum goal.

The final rule is part of a comprehensive fund management plan proposed by the Board on October 19, 2010. The plan is meant to provide insured institutions with moderate, steady assessment rates throughout economic cycles, and to maintain a positive fund balance even during severe economic times. The Board expects to act on the remaining aspects of the comprehensive plan—assessment rates and assessment dividends—in the first quarter of next year.

Attachments: Final Rule - PDF (PDF Help)