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Update of Projected Deposit Insurance Fund Losses, Income, and Reserve Ratios for the Restoration Plan

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The Deposit Insurance Fund balance rose to 83.2 billion dollars at year-end 2016, an increase of 10.6 billion dollars over the year. The Fund reserve ratio at December 31 stood at 1.20 percent. This is the highest reserve ratio in nine years.

The improvement in the Deposit Insurance Fund in 2016 mirrors the largely positive performance of the banking industry during the year. Revenue and net income were higher, asset quality improved, and the number of unprofitable and problem banks continued to decline.

Growth in the Fund also reflects implementation of the plan adopted by the FDIC Board last year to raise the reserve ratio to the higher minimum set by the Dodd-Frank Act – 1.35 percent – by the statutory deadline of September 30, 2020. The law places the burden of this requirement on large banks – those with assets of 10 billion dollars or more. Under the plan, large banks will pay surcharges to help raise the reserve ratio from 1.15 percent to the 1.35 percent statutory minimum, after which the surcharges will cease.

Small banks will also receive credits for the portion of their assessments that contribute to the increase in the reserve ratio from 1.15 percent to 1.35 percent.

The staff currently projects that the reserve ratio should reach 1.35 percent in 2018, about two years ahead of the statutory deadline. By meeting this target earlier than the mandate, we reduce the risk that the FDIC will have to raise deposit insurance assessment rates unexpectedly in the event of a future period of stress and help ensure stable and predictable assessments.

I believe that the FDIC is taking a balanced approach to meeting the statutory requirement to build the Deposit Insurance Fund up to the minimum reserve ratio. I would like to thank the staff for their diligent work to achieve this goal.