Summary of Testimony of Donna Tanoue Chairman, Federal Deposit Insurance Corporation

The FDIC's testimony describes the recent history and condition of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). Both insurance funds are on sound footing and the bank and thrift industries are benefiting from a strong economy. Currently, more than 90 percent of insured banks and thrifts qualify for the best risk-based premium rating and pay no insurance premiums. For the BIF, insurance losses escalated in 1999 and the fund reported a net loss for the first nine months of the year. As of September 30, 1999, the BIF totaled $29.5 billion, with a reserve ratio of 1.38 percent, the same as the reserve ratio at year-end 1997 and 1998. On September 30, 1999, the SAIF balance stood at $10.2 billion and its reserve ratio was 1.44 percent.

A number of reasons are provided for merging the deposit insurance funds. A merger of the funds would ensure that the risks to the deposit insurance system are as diversified as possible. It would reduce the concentration of risks by numbers of institutions, by geography and by types of products. With ongoing consolidation in the industry and the rise of the "megabank," the FDIC's risk is increasingly located in a few large institutions. A combined fund also would be more efficient than the present structure because a merged fund would guarantee that a past disparity in insurance premiums between the BIF and SAIF would not recur in the future. It would have a single assessment rate schedule whose rates would be set solely on the basis of the risks that institutions pose to the single fund. Indeed, a merger of the funds would result in lower costs and regulatory burden for approximately 850 institutions that hold both BIF- and SAIF-insured deposits that must be tracked and assessed separately. Although these costs may not be large in absolute dollars, they represent unnecessary expenditures. Finally, the FDIC has examined the mechanics of merging the funds, and there are no significant obstacles or expenses that would confront the FDIC.

The timing is optimal for merging the BIF and SAIF. Rather than insuring only savings and loans, commercial banks (38 percent) and state-chartered savings banks (8 percent) hold over 45 percent of all deposits insured by the SAIF. Indeed, 25 of the 50 largest holders of SAIF-insured deposits are BIF members, including First Union National Bank (ranked second) and Bank of America, N.A. (ranked third).

The current health of the bank and thrift industries and of the insurance funds also indicate that now is an ideal time to merge the funds. As of September 30, 1999, the reserve ratio of the BIF was 1.38 percent, and that of the SAIF was 1.44 percent. A combined fund would have a reserve ratio of 1.40 percent, causing only a minor amount of dilution of the SAIF. Now is an excellent time to merge the funds, rather than when the industry or one or both of the funds come under stress.

The Subcommittee is urged to exercise great caution in considering rebates. The reserve ratios of the deposit insurance funds can decline as a result of either losses to the funds or deposit growth. In addition, key deposit insurance reforms enacted in the last decade have yet to be tested in an economic downturn. For example, implementation of the risk-based premium system resulted in more than 90 percent of the banking industry paying no deposit insurance premiums with the result that the BIF reserve ratio is not growing and has remained essentially unchanged since 1997, even in these strong economic times. In addition, the FDIC has never provided rebates from money in the deposit insurance funds. Only partial offsets to mandatory flat rate assessments have been permitted. The BIF also suffered a loss of $113 million through the first nine months of 1999 and there are indications that business lending risks are on the rise. If Congress decides to mandate rebates despite these concerns, it should be done in the context of overall deposit insurance reforms that strengthen the banking system, strengthen the deposit insurance system and do not distort banks' economic incentives.

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