



NEWS RELEASE

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BANK INSURANCE FUND BALANCE INCREASED TO \$6.8 BILLION AT MID-YEAR 1993, ACCORDING TO PRELIMINARY RESULTS FROM THE FDIC

The FDIC announced today that the Bank Insurance Fund (BIF) had net income of \$6.9 billion for the six months ended June 30, 1993. These earnings boosted the unaudited fund balance to \$6.8 billion, from the year-end 1992 level of a negative \$100 million.

Improved conditions in the banking industry were the major factor in the higher BIF balance, allowing the FDIC to reduce the insurance fund's reserve for future bank failures and increase its "net underwriting income" (assessment revenue minus insurance losses and expenses).

In a related development, the FDIC also announced today that it recently completed the repayment of BIF working capital borrowings from the Federal Financing Bank. These Treasury borrowings, which Congress authorized in 1990 after an unprecedented rise in the number of bank failures, were as high as \$15.1 billion as late as September 1992. This most recent payment was for the remaining \$2.5 billion. Loan principal and interest were paid from the proceeds of the FDIC's sales of assets acquired from failed banks.

FDIC Chairman Andrew C. Hove, Jr., said: "The FDIC continues to be committed to accomplishing the goal of recapitalizing the Bank Insurance Fund without taxpayer money. This loan repayment should help demonstrate that the insurance fund is recovering from the financial strains of the past, and that the fund will not become another drain on the American taxpayer."

As for the improved BIF balance at mid-year, the latest unaudited financial statements reflect the following:

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1) Fewer bank failures: As announced in June, the FDIC's now projects that commercial and savings banks with combined assets of about \$10 billion are likely to fail in 1993, down from the previous estimate of about \$25 billion. Also, at mid-year, 23 banks with assets of approximately \$2.5 billion had failed, at an estimated cost to the BIF of about \$400 million. In contrast, 66 banks with assets of about \$20.1 billion failed during the first half of 1992, at an estimated cost to the Bank Insurance Fund of about \$3.2 billion.

2) Reduced reserves for future bank failures: Due primarily to the fewer anticipated bank failures, the BIF's reserve for unresolved cases at mid-year stood at \$6.2 billion, a decline of \$4.6 billion from the year-end 1992 reserve for future bank failures.

3) Higher net underwriting income: In 1992, assessment revenue exceeded insurance losses and expenses for the first time in 10 years. The positive trend continues in 1993, with increased assessment premiums and reduced insurance losses resulting in net underwriting income of \$2.1 billion during the first six months -- nearly double the amount for all of last year.

4) Cost containment: New caps on spending and staffing levels, achievable partly due to lower bank failure costs, reduced previously budgeted expenditures by \$455 million during the first six months. That is about 17 percent less than had been previously budgeted. This far exceeds the three percent reduction in administrative expenses that President Clinton has asked all federal agencies to implement.

Chairman Hove added that the Bank Insurance Fund "has been greatly strengthened in the last year. But even with continued improvements in the future, the insurance fund is still years away from being sufficiently

recapitalized." Based on the unaudited financial statements, the BIF currently has 35 cents in reserve for every \$100 of insured deposits. By law, the fund must reach a designated reserve ratio of \$1.25 for every \$100 of insured deposits. Beginning in 1994, the law also prohibits the FDIC from reducing below 23 basis points the average assessment rate charged to banks until the fund has reached that designated reserve ratio.

"So," Mr. Hove said, "despite all this good news about the Bank Insurance Fund, we must repeat that the premiums charged to insured banks cannot be reduced."

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