FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-29-91 (2-28-91)

FDIC BOARD PROPOSES INCREASE IN PREMIUMS, INDICATES INTENTION TO BORROW UP TO $10 BILLION FOR THE BANK INSURANCE FUND

The FDIC's Board of Directors today issued for public comment a plan to increase the premiums banks pay for deposit insurance. The increase -- from 19.5 cents to 23.0 cents per each $100 of deposits -- would generate additional revenues of about $870 million per year for the Bank Insurance Fund (BIF) and would be effective July 1, 1991.

The FDIC also announced that it intends to authorize borrowing up to $10 billion. The additional income generated by the proposed premium increase would be sufficient to pay the interest and principal on $10 billion in borrowings. The agency is discussing with the Treasury Department procedures to accomplish the borrowing. Alternative borrowing sources under consideration include the Treasury, the Federal Reserve, the Federal Financing Bank and the banking industry.

FDIC Chairman L. William Seidman said: "The plan satisfies the common objectives of the FDIC and the banking industry that the industry shoulder the responsibility for maintaining a strong insurance fund. At the same time, we believe a premium increase of this magnitude would have minimal impact on bank capital levels and should not materially inhibit the flow of credit to local communities and the national economy. We want to keep the premium as low as we possibly can and still meet our obligations."

Mr. Seidman added: "The combination of a premium increase and an additional $10 billion in working capital would greatly assist the insurance fund and could get us over our current problems. However, additional funding must be part of an appropriate restructuring of the

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financial system and deposit insurance. The FDIC will continue working with Congress and all interested parties to design strong banking and deposit insurance systems that will serve our nation and our economy well into the 21st century."

The BIF is funded solely by premiums paid by banks and income realized from the investment of those funds. It has been under considerable stress due to the rising costs of bank failures, resulting in three consecutive years of losses. At year-end 1987, the fund had $18.3 billion in reserves, or about $1.10 for every $100 of insured deposits. That has been declining to where preliminary data for year-end 1990 show that the fund had $8.5 billion in reserves, or about 43 cents for every $100 of insured deposits.

The last BIF premium increase, from 12 cents to 19.5 cents per $100, was approved by the Board last September and went into effect at the beginning of this year.

Comments on the FDIC plan will be accepted for 30 days after it appears in the Federal Register. The Board in particular is seeking comments on the likely effects of the proposed increase on bank earnings and capitalization.

A BIF insurance premium of 23 cents per $100 would be identical to the rate already set by law for members of the Savings Association Insurance Fund.

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