Banking and Finance Law Daily Wrap Up, DEPOSIT INSURANCE—DIF to meet 1.35 percent reserve ratio by end of 2018, (Mar. 15, 2016)

Banking and Finance Law Daily Wrap Up

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At its March 15, 2016, meeting, the board of directors of the Federal Deposit Insurance Corporation approved a final rule to increase the Deposit Insurance Fund (DIF) to the statutorily required minimum level of 1.35 percent.

The final rule, which is based on proposal approved by the FDIC board in October 2015, implements three provisions of the Dodd-Frank Act that:

1. raise the minimum reserve ratio for the DIF to a required minimum level of 1.35 percent;
2. require that the DIF reserve ratio reach 1.35 percent by Sept. 30, 2020; and
3. require that, in setting assessments, the FDIC "offset the effect of [the increase in the minimum reserve ratio from 1.15 percent to 1.35 percent) on insured depository institutions with total consolidated assets of less than $10,000,000,000."

As with the proposed rule, the final rule imposes a surcharge on the regular quarterly deposit insurance assessments of large insured depository institutions which have total assets of $10 billion or more. The final rule also provides that the surcharge will equal an annual rate of 4.5 basis points applied to the institution's assessment base with certain adjustments.

Start of surcharge. The surcharge is expected to be imposed on July 1, 2016, the final rule's effective date, but only if reserve ratio reaches 1.15 percent before that date. If the reserve ratio has not reached 1.15 percent by July 1, 2016, surcharges will begin the first day of the calendar quarter after the reserve ratio reaches 1.15 percent.

In a memorandum, the FDIC's staff expects that surcharges will commence in the second half of 2016 and that they should be sufficient to raise the reserve ratio to 1.35 percent in approximately eight quarters—before the end of 2018.

Small bank relief. To satisfy the Dodd-Frank Act requirement that the FDIC offset the effect of the increase in the reserve ratio from 1.15 percent to 1.35 percent on insured depository institutions with total assets of less than $10 billion, the final rule provides assessment credits to these small banks for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15 percent and 1.35 percent.

"Balanced approach." Commenting on the final rule, FDIC Chairman Martin J. Gruenberg stated that the agency was taking a "balanced approach." He added, "A large majority of institutions will have substantially reduced assessments when the reserve ratio reaches 1.15. Even many mid-sized institutions subject to surcharges are expected to pay a lower total assessment rate—including their surcharges—than currently. The assessment surcharges on large institutions will be spread out over time and should be manageable for the institutions. By aiming to reach the minimum reserve ratio ahead of the statutory deadline, this approach reduces the risk that the FDIC will have to raise rates unexpectedly in the event of a future period of stress and should allow the FDIC to maintain stable and predictable assessments."

Restoration Plan. The FDIC's directors also received an update on the agency's Restoration Plan DIF loss and income projections. The Restoration Plan also allows the FDIC to evaluate whether growth in the DIF under current assessment rates is likely to be sufficient to meet the statutory requirements.

RegulatoryActivity: DepositInsurance DoddFrankAct