Speeches and Testimony

Statement by Martin J. Gruenberg, Chairman, FDIC Board of Directors, on the Restoration Plan Semiannual Update

Last Updated: November 16, 2023

As required by the Federal Deposit Insurance Act,[1] the FDIC has been operating under a Restoration Plan since September 15, 2020,[2] when extraordinary growth in insured deposits occurred during the first half of 2020, resulting from actions taken in response to the COVID-19 pandemic, caused the Deposit Insurance Fund (DIF) reserve ratio to decline below the statutory minimum of 1.35 percent as of June 30, 2020. The Restoration Plan is intended to restore the DIF to the statutory minimum of 1.35 percent within the eight-year deadline required by statute, or by September 30, 2028.

On June 21, 2022, based on projections of the reserve ratio under different scenarios indicating that the reserve ratio was at risk of not reaching the statutory minimum of 1.35 percent by September 30, 2028, the Board amended the Restoration Plan.[3] In conjunction with the Amended Restoration Plan, the Board proposed, and subsequently finalized, an increase in the initial base deposit insurance assessment rate schedules of 2 basis points, to improve the likelihood that the reserve ratio would be restored to at least 1.35 percent by September 30, 2028.[4] The revised assessment rate schedules became effective January 1, 2023, and were applicable beginning the first quarterly assessment period of 2023.

The Amended Restoration Plan requires the FDIC to update its analysis and projections for the DIF balance and reserve ratio at least semiannually and, if necessary, recommend modifications to the Amended Restoration Plan. This is the second semiannual update of 2023.

The DIF balance totaled $117.0 billion as of June 30, 2023, down $11.3 billion from the beginning of the year. The decline in the DIF was due primarily to increased loss provisions in the first half of 2023, with the March 2023 failures of Silicon Valley Bank and Signature Bank, and the May 2023 failure of First Republic Bank. The decline in the DIF balance does not include the cost of

protecting uninsured deposits pursuant to the systemic risk determination announced following the failures of Silicon Valley Bank and Signature Bank, as the FDIC is required by statute to recover those losses through one or more special assessments.[5] The Board is also considering today a final rule to impose a special assessment to recover the loss to the DIF associated with the systemic risk determination. Therefore, only the estimated loss attributable to covering insured deposits for these two failures directly impacted the DIF balance.

The increased loss provisions, coupled with strong growth in insured deposits, resulted in a reserve ratio—the fund balance relative to insured deposits—of 1.10 percent as of June 30, 2023, down from 1.25 percent as of December 31, 2022. Despite this decline, staff continues to project that the reserve ratio is likely to reach the statutory minimum of 1.35 percent ahead of the statutory deadline.

The increase in assessment rate schedules that became effective on January 1, 2023, resulted in additional assessment revenue that slightly offset the decline in the DIF in the first half of 2023. Had this rate increase not already been in effect, the Board might have been faced with a different projected path for the reserve ratio, and the potential need for additional action, given the period of stress and the bank failures earlier this year.

Even with the period of stress earlier this year, the banking industry continues to be resilient. However, downside risks—including the effects of inflation, rising market interest rates, and geopolitical uncertainty—could present challenges and could have longer-term effects on the condition and performance of the economy and the banking industry, which could exacerbate the risk of losses to the DIF.

FDIC staff will continue to update the Board semiannually, or more frequently as conditions warrant, to determine if changes to the Amended Restoration Plan are necessary. Reaching the statutory minimum reasonably promptly and in advance of the statutory deadline strengthens the DIF so that it can better withstand unexpected losses and reduces the likelihood of pro-cyclical assessments.

Finally, I would like to thank the FDIC staff for this update and their attention to these important issues relating to the management of the Deposit Insurance Fund.

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[1] Section 7(b)(3)(E) of the Federal Deposit Insurance Act, 12 U.S.C. 1817(b)(3)(E), available at https://www.fdic.gov/regulations/laws/rules/1000-800.html#fdic1000sec.7b.

[2] 2020 FDIC Restoration Plan, 85 FR 59306 (Sept. 21, 2020), available at https://www.fdic.gov/news/board-matters/2020/2020-09-15-notice-dis-a-fr.pdf.

[3] 2022 FDIC Amended Restoration Plan, 87 FR 39518 (July 1, 2022), available at https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-sum-b-fr.pdf.

[4] Final Rule on Assessments, Revised Deposit Insurance Assessment Rates, 87 FR 64314 (Oct. 24, 2022), available at https://www.fdic.gov/news/board-matters/2022/2022-10-18-notice-dis-a-fr.pdf.

[5] Section 13(c)(4)(G)(ii) of the Federal Deposit Insurance Act, 12 U.S.C. 1823(c)(4)(G)(ii), available at https://www.fdic.gov/regulations/laws/rules/1000-1500.html#fdic1000sec.13c.