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FDIC Amends Deposit Insurance Fund Restoration Plan and Proposes Increase in Assessment Rates

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On June 21, the Federal Deposit Insurance Corporation ("FDIC") Board voted to amend the Deposit Insurance Fund ("DIF") restoration plan originally adopted in September 2020. As part of that amended restoration plan, the FDIC issued a Notice of Proposed Rulemaking ("NPR") to propose a universal increase in initial base deposit insurance rates of 2 basis points.

Comments on the NPR are due August 20, 2022. Among the questions the NPR poses is whether the FDIC should adopt an alternative plan with a one-time special assessment of 4.5 basis points. Industry is likely to prefer the more gradual approach as proposed, but some may comment that just a 1 basis point increase could be sufficient.

The Federal Deposit Insurance Act ("FDIA") sets a statutory minimum for the designated reserve ratio ("DRR"), currently designated by the FDIC as the DIF to average aggregate insured deposits of 1.35%. Because of the extraordinary growth in deposits that occurred in the first two quarters of 2020 for various reasons associated with the coronavirus pandemic, the DRR dropped to 1.30%, triggering the need for a restoration plan under the FDI Act. As of March 31, 2022, the DRR stood at 1.27%.

The FDIC noted that the proposed increase in deposit insurance assessment rates should increase the likelihood that the DIF will meet its minimum ratio of 1.35% prior to the statutorily mandated date of September 2028. Notwithstanding the statutory minimum of 1.35% for the DRR, the FDIC has stated that its long-term goal is to maintain a 2% DRR.