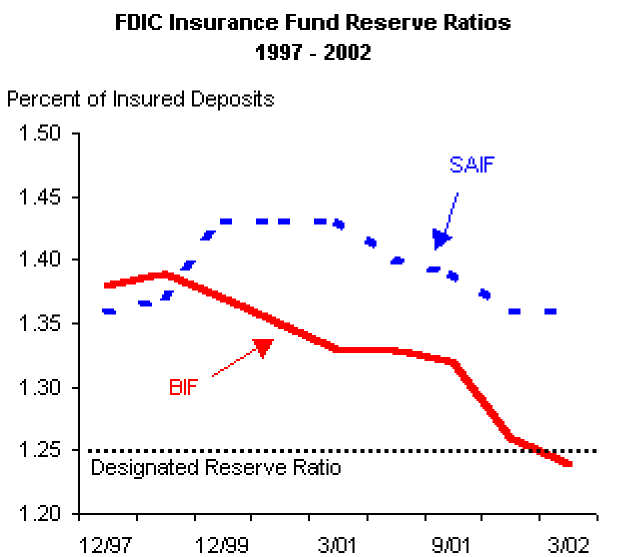
An Update on Emerging Issues in Banking

Better Deposit Data Show BIF Below Target in First Quarter

June 12, 2002

Estimated insured deposits of the Bank Insurance Fund (BIF) increased by $75 billion, a 12.4 percent annualized rate, during the first quarter. While large increases in insured deposits are a common first-quarter occurrence -- in the first quarter of 2001, BIF-insured deposits increased by $71.3 billion -- the most recent increase is noteworthy because it caused the ratio of the BIF to insured deposits to decline to 1.24 percent. This is below the 1.25-percent Designated Reserve Ratio (DRR) target established by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). It marks the first time since 1995 that the BIF reserve ratio has fallen below the designated DRR.

Chart 1



Note: A reserve ratio is the fund balance as a percentage of estimated insured deposits. As with other Call report items, prior periods may reflect adjustments. Only year-end fund balances are audited. BIF-insured deposit totals include U.S. branches of foreign banks.

The deposit growth in the first quarter was driven by a reporting change and illustrates how under current law, fluctuations in deposits or insurance losses can have financial consequences for large numbers of insured institutions when an insurance fund is near its DRR. When an insurance fund's reserve ratio falls below the target DRR, FDICIA requires that the FDIC raise deposit insurance premiums to a level sufficient to restore the reserve ratio to the DRR within a year after premiums are set, or else charge every institution insured by the fund at least 23 basis points (23 cents per $100 of assessable deposits) until the reserve ratio meets the DRR. More than 90 percent of all BIF-insured institutions currently do not pay any insurance premiums for FDIC coverage.

About two-thirds of the increase in BIF-insured deposits in the first quarter came from a change in the quarterly Call reports that provide the source data for estimating insured deposits. This reporting change, which took effect with the March 31 Call report, was prompted by evidence of significant uncertainty in the estimate that traditional calculations yielded for insured deposits. Since 1982, Call reports have contained line items for the number of domestic deposit accounts with balances of more than $100,000 (i.e., accounts with balances that exceed the limit on deposit insurance coverage), and the total amount of deposits in these accounts. These items have been used to calculate an estimate of insured deposits: the number of accounts greater than $100,000 is multiplied by 100,000, and this amount is subtracted from the total amount of deposits in these accounts. The difference is the estimated amount of uninsured deposits. The uninsured estimate is then subtracted from a bank's total domestic deposits, yielding an estimate of insured deposits. This method of computing insured deposits contained no adjustments for two important factors -- the existence of large accounts that have multiple ownership or pass-through insurance coverage, and multiple accounts held by single depositors that add up to more than $100,000. When banks have pass-through accounts that are reported as single accounts, the traditional calculation understates actual insured deposits. When banks have multiple accounts owned by single individuals that in aggregate exceed $100,000, the traditional calculation overstates insured deposits.

The accuracy of insured deposit estimates became more important with the passage of FDICIA in 1991; as mentioned above, FDICIA requires the FDIC to set assessment rates in part based on the ratio of an insurance fund to its insured deposits. In an effort to obtain better data for estimating insured deposits, a new item was added to the Call report in 1993, asking banks that had a better estimate of uninsured deposits than the amount produced by the traditional calculation to report their better estimate. This item was made voluntary to limit the reporting burden. Since its introduction, voluntary participation has been very limited. Only 155 banks out of more than 8,500 Call reporters provided voluntary better estimates in their December 31 2001 Call reports. Concerns about the accuracy of the insured deposits estimate have increased with the recent growth in brokered deposits. Many of these deposits are issued in amounts of more than $100,000 and participated out by brokers in shares of $100,000 or less, receiving the benefit of pass-through insurance coverage.

In 2001, the FDIC proposed to make the "better estimate" of uninsured deposits mandatory, rather than voluntary, for Call reporters. The Federal Register notice of the proposed change, dated October 18, 2001 (Vol. 66, No. 202), can be accessed through Federal Register Online. [1] To limit the reporting burden, the instructions for the mandatory better estimate emphasize that the estimates should be based only on data that are readily available on the banks' general ledgers or other records. Beginning with the March 31, 2002 Call report, the FDIC's computation of insured deposits subtracts the "better estimate" of uninsured deposits from each institution's total domestic deposits.

Call report data for March 31 indicate that, if insured deposits are computed according to the traditional method, using better estimates only for those institutions that voluntarily provided them in the December 31, 2001 Call report, then insured deposits would have increased by $22.4 billion. This would have maintained the BIF reserve ratio at 1.26 percent, since the BIF grew by $258 million during the quarter. The change to better estimates at the other 8,452 commercial banks and savings banks that filed Call reports added an additional $52.6 billion to BIF-insured deposits. In addition, since 297 of these institutions are SAIF members, and since BIF-member institutions hold a considerable share of SAIF-insured deposits, the new reporting also added $3.9 billion to SAIF-insured deposits. This increase meant that the SAIF reserve ratio remained at 1.36 percent; if the traditional computation had been used, it would have increased to 1.37 percent. If the two deposit insurance funds were combined, the resulting fund would have a reserve ratio of 1.27 percent.

The decline in the BIF reserve ratio below the 1.25-percent DRR does not automatically trigger deposit insurance premiums for institutions with BIF-insured deposits. The FDIC makes semiannual determinations of the condition of the deposit insurance funds, and the most recent determination was to not impose premiums in the June-December assessment period. The May memorandum summarizing the rate case can be viewed at: http://www.fdic.gov/deposit/insurance/risk/bif2002_02.html. The next determination will be made in November, and if the BIF reserve ratio is still below the DRR, then premiums would be assessed for the January-June 2003 period.

As of March 31, 2002, the BIF balance was $30.7 billion, and the amount of BIF-insured deposits was $2.48 trillion. The SAIF balance was $11.0 billion, and the amount of SAIF-insured deposits was $810 billion. Changes in the BIF and SAIF reserve ratios will be driven largely by the amount of insurance losses and the growth of insured deposits. At the current level of insured deposits, a $248-million change in the BIF translates into a 1-basis point change in the BIF reserve ratio. With the current BIF assessment base of $3.59 trillion, a one-basis point assessment (1 cent per $100 of assessable deposits) would bring in $359 million.

- **Quarterly Banking Profile - First Quarter 2002**
- **Statement by FDIC Chairman Don Powell**

[1] Please note that a mandatory "better estimate" has been part of the Thrift Financial Reports filed by savings and loan associations since 1993.

Chart 1

FDIC INSURANCE FUND RESERVE RATIOS 1997 - 2002

Percent of Insured Deposits

Month and Year	Bank Insurance Fund BIF	Savings Association Insurance Fund SAIF
12/97	1.38	1.36
12/98	1.39	1.37
12/99	1.37	1.43
12/00	1.35	1.43
3/01	1.33	1.43
6/01	1.33	1.40
9/01	1.32	1.39
12/01	1.26	1.36
3/02	1.24	1.36

Note: A reserve ratio is the fund balance as a percentage of estimated insured deposits. As with other Call report items, prior periods may reflect adjustments. Only year-end fund balances are audited. BIF-insured deposit totals include U.S. branches of foreign banks.