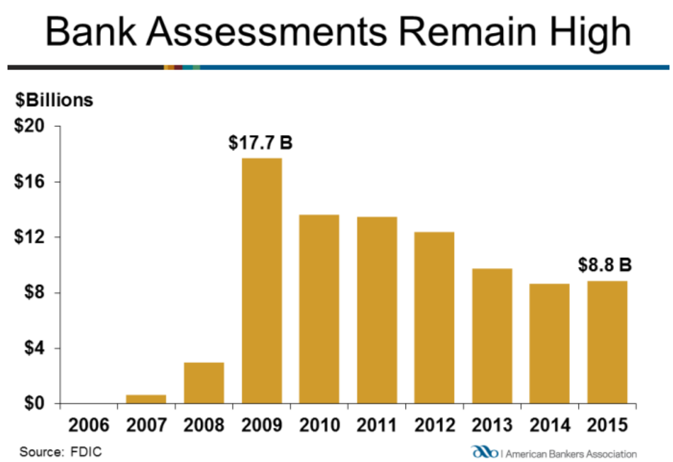
FDIC Rapidly Recapitalizing

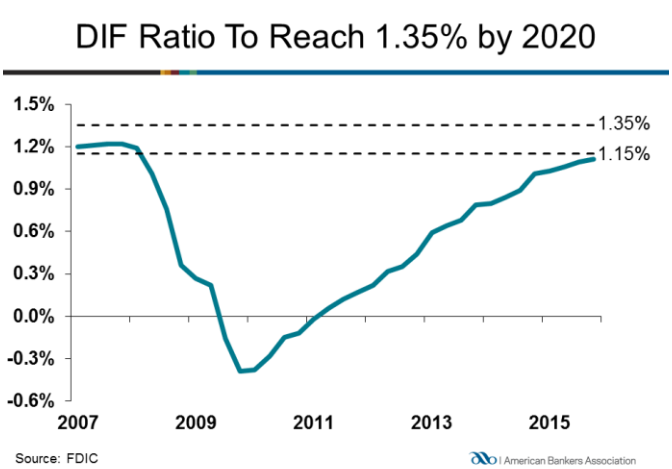
The FDIC's Deposit Insurance Fund continues to recover. The DIF grew by $9.8 billion in 2015, reaching $72.6 billion. The growth was primarily due to $8.8 billion of assessments. Operating expenses for the year were $1.7 billion, consistent with the last five years.

Through elevated assessments and recapturing reserves, the fund has rapidly recovered and recapitalization is well ahead of schedule. Cumulatively the DIF balance has risen by almost $91.0 billion from its negative $20.9 billion low in the third quarter of 2009.

Banks, not taxpayers, are entirely responsible for covering all of the FDIC's expenses, including recapitalization of the fund. In fact, banks have paid over $155 billion in assessments since the inception of the fund, ensuring that no one has ever lost a penny of an insured deposit.



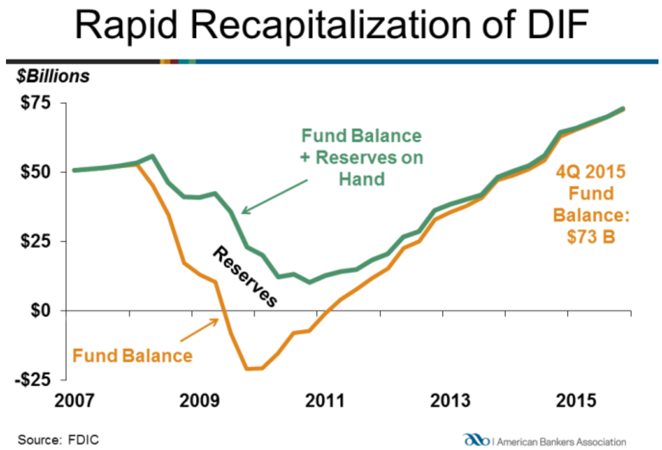
The fund balance has grown to 1.11 percent of insured deposits, a level last seen in mid-2008. The Dodd-Frank Act mandates that premiums be set to recapitalize the fund to 1.35 percent of insured deposits by September 2020.

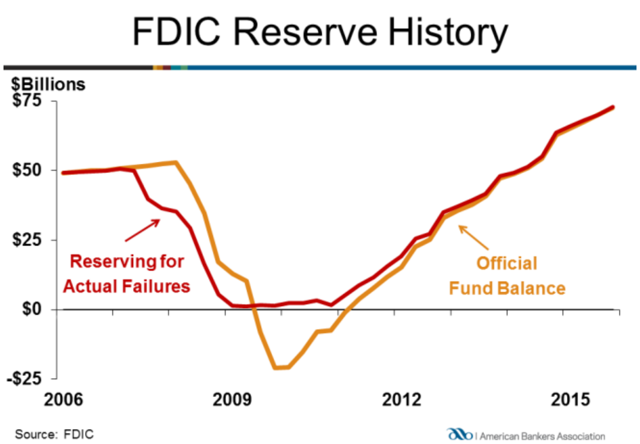


The rapid recapitalization of the DIF reflects the strength of the industry. The banking industry is profitable and better capitalized than at any other point in history. Bank failures have become infrequent. As a result, the fund is growing faster than expected.

A March 2016 FDIC rule to implement section 334 of the Dodd-Frank Act, mandates that once the fund reaches 1.15 percent, banks larger than $10 billion in assets will be required to assume the burden of bringing the fund to 1.35 percent by the first quarter of 2019.

Recapture of excess reserves has contributed significantly to recovery of the insurance fund. Since 2010, the FDIC has recaptured over $28.7 billion in excess reserves held against failures. The FDIC has a history of excessively conservative forecasts of bank failures during troublesome periods and, as a result, over-reserving against the costs of actual failures. These reserves are subtracted out of its insurance fund and held against future failures.





The result is a precipitous decline of the officially reported fund balance, followed later by just as sudden a climb of the balance when the excess reserving is corrected and recaptured into the fund.

Although it is unreasonable to expect perfect foresight, if the FDIC had been able to perfectly forecast failure costs, the fund would never have dropped below $1 billion. The fund balance plus reserves never fell below $10 billion.