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FDIC Board Sets a Two Percent Designated Reserve Ratio

On December 15, the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) voted on a final rule to set the insurance fund's designated reserve ratio (DRR) at 2% of estimated insured deposits. The Dodd-Frank Wall Street Reform and Consumer Protection Act set a minimum DRR of 1.35% and left unchanged the requirement that the FDIC Board set a DRR annually. The Board must set the DRR according to the following factors: risk of loss to the insurance fund, economic conditions affecting the banking industry, preventing sharp swings in the assessment rates, and any other factors it deems important.

FDIC Chairman Sheila Bair stated, "Given previous statutory limitations on the ability of the FDIC to build reserves in excess of 1.25%, our resources heading into the financial crisis were woefully inadequate. This new rule will allow us to better prepare for the future. It will also give the industry greater certainty around the premium structure. While the 2% designated reserve ratio established by the board is higher, the trade-off will be lower, more predictable premiums over time. By building higher reserves during the good times, we will significantly reduce the risk of pro-cyclical assessments when the inevitable next downturn occurs."

However, the FDIC in the final rule made it clear that it "views the 2% DRR as a long-range, minimum target."

Read more.

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