SHADOW FINANCIAL REGULATORY COMMITTEE

Administrative Office
c/o Professor George Kaufman
Loyola University of Chicago
820 North Michigan Avenue
Chicago, Illinois 60611
TEL (312) 915-7075
FAX (312) 915-6118

Statement No. 114

For information contact:

Paul M. Horvitz
(713) 743-4765

Robert A. Eisenbeis
(919) 962-3203

Statement of the Shadow Financial Regulatory Committee on FDIC Insurance Assessments

December 12, 1994

Under current law the FDIC may reduce the rate of deposit insurance premiums when the insurance fund exceeds 1.25 percent of insured deposits. It is expected that the Bank Insurance Fund (BIF) will reach that level in 1995, while the Savings Association Insurance Fund (SAIF) will not reach the 1.25 percent target for at least several more years. Therefore, as early as next July, banks may be assessed deposit insurance premiums as much as 25 basis points lower than those paid by thrift institutions having equal risk.

Current deposit insurance premiums serve three purposes: to cover administrative expenses; to build up a reserve against predictable exposure to future deposit insurance losses; and to pay for an assigned portion of past deposit insurance losses.

With respect to prospective insurance risk, the Committee believes that premiums should be equal for all institutions that pose equal risks, regardless of their charter status. Premiums should cover all losses without the need for support from the taxpayer. The Committee believes that the reforms of FDICIA, if they were to be appropriately extended and administered so as to reduce losses to the FDIC, would permit a premium structure significantly lower than that currently in effect. Required reforms include substantial minimum capital requirements, market value reporting, and prompt corrective action. With respect to defraying past losses, Congress has already determined that the thrift industry should bear a portion of the burden it has imposed on the taxpayer and that share has been set as the cost of servicing the FICO bonds. The Committee believes it is appropriate for the industry to bear these costs; this has the desirable effect of reducing industry incentives to manipulate the regulatory process in the future.

Policy makers must recognize, however, that insistence upon enforcing loss sharing requirements may conflict with the objectives of enabling thrift institutions to reduce risk through diversification by adopting, for example, a commercial bank charter. Congress should consider lifting its moratorium on thrift charter conversions in order to promote a more efficient financial structure for thrift institutions. One way to achieve this objective while not totally abandoning its loss sharing requirement would be for Congress to impose a conversion fee for a thrift that would be less than the present value of its pro rata share of its FICO obligation.