FDIC Federal Deposit Insurance Corporation

MEMO

TO: The Board of Directors

FROM: Patrick Mitchell
Director, Division of Insurance and Research

DATE: June 21, 2022

RE: Restoration Plan Semiannual Update and Amended Restoration Plan

RECOMMENDATION

Staff recommend that the FDIC's Board of Directors (Board) approve and authorize publication of the attached Amended Restoration Plan to, among other things, reflect a uniform increase in initial base deposit insurance assessment rates of 2 basis points. Staff believe the recommended assessment rate increase appropriately balances several considerations, including the goal of reaching the statutory minimum reserve ratio of 1.35 percent reasonably promptly, the goal of strengthening the fund to reduce the risk of pro-cyclical assessments in the event of a future downturn or industry stress, and the projected effects on bank earnings at a time when the banking industry is better positioned to absorb an assessment rate increase. Under the Amended Restoration Plan, staff will continue to update projections for the fund balance and reserve ratio at least semiannually while the Plan is in effect and to recommend rate adjustments as necessary.

SUMMARY

The Federal Deposit Insurance Act (the FDI Act) requires that the Board adopt a restoration plan when the Deposit Insurance Fund (the DIF or the fund) reserve ratio falls below the statutory minimum of 1.35 percent or is expected to within 6 months.[1] Extraordinary growth in insured deposits during the first and second quarters of 2020 caused the DIF reserve ratio to decline below the statutory minimum of 1.35 percent as of June 30, 2020. On September 15, 2020, the Board adopted a Restoration Plan (Plan) to restore the DIF to at least 1.35 percent by September 30, 2028, maintaining the assessment rate schedule in place at the time.[2] The Plan requires the FDIC to update its analysis and projections for the DIF balance and reserve ratio at least semiannually. This memorandum is the first semiannual update of 2022.

Under the Plan, the FDIC is monitoring deposit balance trends, potential losses, and other factors that affect the reserve ratio. While insured deposit growth rates remained elevated through the first quarter of 2021, such growth decelerated for the remaining quarters of 2021 through the first quarter of 2022 and was slightly above the historical average annual growth rate. Those insured deposits resulting from extraordinary growth in the first half of 2020 and the first quarter of 2021 as the result of actions taken by monetary and fiscal authorities, and by individuals, businesses, and financial market participants in response to the Coronavirus Disease (COVID-19) pandemic do not appear to have receded as of the first quarter of 2022. Unrealized losses on

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[1] *See* 12 U.S.C. 1817(b)(3)(B) and (E).
[2] *See* 85 FR 59306 (Sept. 21, 2020).

Concur:

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Harrel M. Pettway
General Counsel

available-for-sale securities in the DIF portfolio contributed to a relatively flat DIF balance in the first quarter of 2022. As of March 31, 2022, the industry weighted average assessment rate nearly matched the pre-pandemic average, and has been consistently below the level projected when the Board originally adopted the Plan. Consequently, growth in insured deposits outpaced growth in the DIF, resulting in a decline in the reserve ratio of 4 basis points to 1.23 percent as of March 31, 2022.

While the banking industry has remained a source of strength for the economy and the DIF has experienced low losses from bank failures in recent years, due to slowing growth in the fund balance combined with continued elevated estimated insured deposit levels, staff project that the reserve ratio is at risk of not reaching the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028.[3] Therefore, staff recommend an amendment to the Plan to incorporate a uniform increase in initial base assessment rates of 2 basis points. The proposed increase would improve the likelihood that the reserve ratio reaches the statutory minimum of 1.35 percent before the deadline and would reduce the likelihood that the FDIC would need to consider a potentially pro-cyclical increase in assessment rates should the banking industry enter a period of stress.

The proposed Amended Restoration Plan incorporating a uniform increase in initial assessment rates, and the supporting analyses are detailed later in this semiannual update. In conjunction with the proposed Amended Restoration Plan, staff are separately and concurrently recommending adoption and publication of a notice of proposed rulemaking to implement and seek comment on the proposed uniform 2 basis point increase in initial base deposit insurance assessment rates, beginning with the first quarterly assessment period of 2023.

ESTABLISHMENT OF THE RESTORATION PLAN

As of June 30, 2020, the reserve ratio had fallen below the statutory minimum and stood at 1.30 percent.[4] The decline in the reserve ratio during the first half of 2020 was solely a result of extraordinary insured deposit growth resulting from actions taken by monetary and fiscal authorities, and by individuals, businesses, and financial market participants in response to the COVID-19 pandemic.

Under the FDI Act, when the reserve ratio falls below 1.35 percent the FDIC must establish and implement a restoration plan to restore the reserve ratio to at least 1.35 percent within 8 years of establishing the plan, absent extraordinary circumstances.[5] On September 15, 2020, the Board adopted a Restoration Plan to restore the DIF to at least 1.35 percent by September 30, 2028, maintaining the assessment rate schedule in place at the time.[6] The Restoration Plan, as originally adopted, provides that:

1. The FDIC will monitor deposit trends, potential losses, and other factors that affect the reserve ratio.
2. The FDIC will maintain the current schedule of assessment rates for all insured depository institutions (IDIs).

[3] As used in this Memorandum, the term ‘‘bank’’ is synonymous with the term ‘‘insured depository institution’’ as it is used in section 3(c)(2) of the FDI Act, 12 U.S.C. 1813(c)(2).
[4] The reserve ratio is calculated as the ratio of the net worth of the DIF (fund balance) to the value of the aggregate estimated insured deposits at the end of a given quarter. *See* 12 U.S.C. 1813(y)(3).
[5] 12 U.S.C. 1817(b)(3)(E)(ii).
[6] *See* 85 FR 59306 (Sept. 21, 2020).

3. At least semiannually, staff will update the Board on its analysis and projections for the fund balance and reserve ratio and, if necessary, recommend any modifications to the Plan, such as increasing assessment rates.

To meet the statutory requirement, the reserve ratio must be restored to at least 1.35 percent no later than September 30, 2028.[7]

The Plan requires the FDIC to update its analysis and projections for the fund balance and reserve ratio at least semiannually, which enables the FDIC to evaluate whether the reserve ratio is likely to reach 1.35 percent within the 8-year period. As of the first semiannual update to the Board in 2021, insured deposits grew due to subsequent additional fiscal stimulus and continued elevated savings rates, resulting in the reserve ratio falling to 1.25 percent as of March 31, 2021.[8] As of the second semiannual update to the Board in 2021, the DIF balance continued to grow while quarterly insured deposit growth began to normalize, resulting in modest growth in the reserve ratio to 1.27 percent as of September 30, 2021.[9]

SEMIANNUAL UPDATE FOR JUNE 2022

This memorandum contains the first semiannual update of 2022. Following the second semiannual update to the Board in 2021, growth in insured deposits was slightly above the historical average annual growth rate. Over this period, growth in insured deposits outpaced growth in the DIF, resulting in a decline in the reserve ratio of 4 basis points to 1.23 percent as of March 31, 2022.

Table 1 shows the components of the reserve ratio for the third quarter of 2021 through the first quarter of 2022. While assessment revenue was the primary contributor to growth in the DIF, the weighted average assessment rate for all banks was approximately 3.7 basis points for the assessment period ending March 31, 2022, compared to approximately 4.0 basis points when the Restoration Plan was established. In the first quarter of 2022, unrealized losses on available-for-sale securities in the DIF portfolio contributed to a relatively flat DIF balance, driven by rising yields as market participants reacted to expectations of increased inflation and tighter monetary policy. The DIF has experienced low losses from bank failures, with no banks failing in 2021 and thus far in 2022. As of March 31, 2022, the DIF balance totaled $123.0 billion, up $3.7 billion from one year earlier.

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[7] The reserve ratio is based on total estimated insured deposits at the end of a given quarter. The FDIC will use data as of September 30, 2028, the first quarter-end date for which the reserve ratio will be known after September 15, 2028, the end date of the 8-year period.

[8] Restoration Plan Semiannual Update, June 15, 2021, available at: https://www.fdic.gov/news/board-matters/2021/2021-06-15-notice-dis-a-mem.pdf.

[9] Restoration Plan Semiannual Update, December 14, 2021, available at: https://www.fdic.gov/news/board-matters/2021/2021-12-14-notice-dis-b-mem.pdf.

Table 1–Fund Balance,
Estimated Insured Deposits, and Reserve Ratio
[dollar amounts in billions]

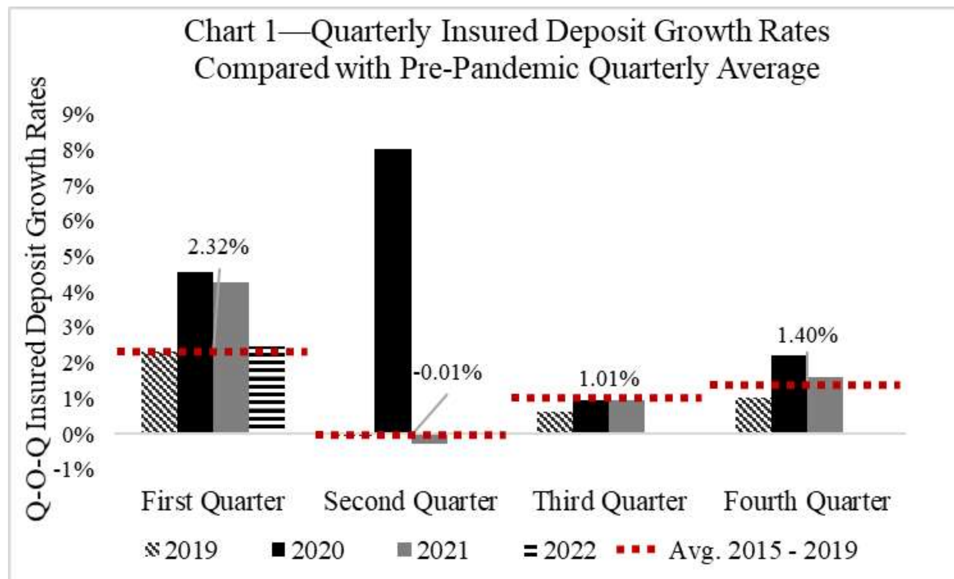
	3Q 2021	4Q 2021	1Q 2022
Beginning Fund Balance	$120.5	$121.9	$123.1
Plus: Net Assessment Revenue	$1.7	$2.0	$1.9
Plus: Investment Income[a]	$0.1	($0.3)	($1.5)
Less: Loss Provisions	($0.1)	*	$0.1
Less: Operating Expenses	$0.5	$0.5	$0.4
Ending Fund Balance[b]	$121.9	$123.1	$123.0
Estimated Insured Deposits	$9,580.7	$9,733.5	$9,974.9
Q-O-Q Growth in Est. Insured Deposits	0.97%	1.59%	2.48%
Ending Reserve Ratio	1.27%	1.27%	1.23%

*Absolute value less than $50 million
[a]Includes unrealized gains/losses on available-for-sale securities.
[b]Components of fund balance changes may not sum to totals due to rounding.

Additional detail on the factors affecting the DIF balance and growth in the reserve ratio is provided below.

Deposit trends

Since the last semiannual update, insured deposits exhibited annual growth that was slightly above historical averages. As shown in Chart 1, fourth and first quarters have historically exhibited the highest insured deposit growth rates throughout the year. Insured deposits grew by 1.59 percent in the fourth quarter of 2021, slightly above the pre-pandemic quarterly average of 1.40 percent. In the first quarter of 2022, insured deposits grew by 2.48 percent, slightly above the quarterly average of 2.32 percent. This moderation in insured deposit growth, relative to the first half of 2020 and the first quarter of 2021, was attributable in part to a decline in support from fiscal stimulus programs and increases in consumer spending. Over the last year, insured deposits have grown by 4.9 percent, which is slightly elevated compared to the pre-pandemic average of 4.5 percent.



While insured deposit growth has largely normalized, aggregate balances remain significantly elevated. In the previous semiannual update to the Board, staff estimated that excess insured deposits that flowed into banks as the result of actions taken by monetary and fiscal authorities, and by individuals, businesses, and financial market participants in response to the COVID-19 pandemic totaled approximately $1.13 trillion. This estimate reflects the amount of insured deposits as of September 30, 2021, in excess of the amount that would have resulted if insured deposits had grown at the pre-pandemic average rate of 4.5 percent since December 31, 2019.[10] Rather than receding, as previously expected, these excess insured deposits have grown by about $200 billion through March 31, 2022.

Economic conditions weakened in early 2022, following strong growth in 2021. Real gross domestic product (GDP) grew 5.7 percent in 2021, as the economy recovered from the 3.4 percent decline in GDP in 2020. The unemployment rate declined and the labor market tightened with many industries reporting a shortage of workers. The U.S. economy weakened in 2022, with a 1.5 percent decline in real GDP in the first quarter, reflecting the effects of elevated COVID-19 caseloads, reduced government support, and continued supply chain disruptions. Global developments in 2022, including the invasion of Ukraine by Russia, resulted in even higher energy and commodity prices and exacerbated supply shortages. Inflation accelerated and spread to categories not initially affected by the pandemic. Financial market conditions deteriorated and interest rates began to rise, weighing on the economy. Uncertainty on the outlook increased in the first half of 2022, given the potential for prolonged inflation, higher than expected interest rate rises, and pandemic conditions. The May 2022 Blue Chip consensus forecast for GDP growth is 2.8 percent for the second quarter of 2022, and 2.6 percent for full-year 2022.

Despite these trends, consumer spending continued to grow overall but higher retail spending in nominal terms reflected consumers paying more for items with higher inflation. The personal savings rate declined below its pre-pandemic average to 6.2 percent as of March 2022 from a pandemic high of 33.8 percent in April 2020. Lower personal savings contributed to the moderation in insured deposit growth, reflecting a decline in support from fiscal stimulus programs and increases in consumer spending. Even with lower personal

[10] By September 30, 2021, deposit balances would have fully reflected the more significant actions taken by monetary and fiscal authorities in response to the COVID-19 pandemic. September 2021 was also the first month that the personal savings rate declined to a level within the range reported during the year prior to the pandemic.

savings, insured deposit growth for 2021 was slightly elevated and aggregate balances remain significantly elevated.

The outlook for insured deposits remains uncertain and depends on several factors, including the outlook for consumer spending and incomes. Any unexpected economic weakness or concerns about slower than expected economic growth may cause businesses and consumers to maintain caution in spending, and keep deposit levels elevated. Continued supply chain pressures and prolonged higher inflation may cause consumer spending to rise further as consumers pay more for a similar amount of goods, or may cause consumers to delay or forgo some purchases. Similarly, unexpected financial market stress could prompt another round of investor risk aversion that could lead to an increase in insured deposits.

In contrast, tighter monetary policy and reduction of the Federal Reserve's balance sheet may inhibit growth of insured deposits in the banking system. Despite the recent increases in the short-term benchmark rate set by the Federal Reserve, most banks have little incentive to raise interest rates on deposit accounts and spur deposit growth in the near-term, given excess liquidity. If competition for deposits remains subdued and rates paid on deposit accounts remain low, depositors may shift balances away from deposit accounts and into higher-yielding alternatives, including money-market funds.

A year has passed since the latest quarter of extraordinary growth in insured deposits prompted by the last round of fiscal stimulus, but those deposits have yet to exhibit any indication of receding. Staff will continue to closely monitor depositor behavior and the effects on insured deposits.

Potential losses

Losses from past and future bank failures affect the reserve ratio by lowering the fund balance. In recent years, the DIF has experienced low losses from bank failures. On average, four banks per year failed between 2016 and 2021, at an average annual cost to the fund of about $208 million.[11] No banks have failed thus far in 2022, marking 19 consecutive months without a bank failure and the seventh year in a row with few or no failures. Based on currently available information about banks expected to fail in the near term; analyses of longer-term prospects for troubled banks; and trends in CAMELS ratings, failure rates, and loss rates; staff project that failures for the five-year period from 2022 to 2026 would cost the fund approximately $1.8 billion.

The total number of institutions on the FDIC's Problem Bank List was 40 at the end of the first quarter of 2022, the lowest level since publication of the FDIC's Quarterly Banking Profile began in 1984.[12] The number of troubled banks is currently expected to remain at low levels.

Future losses to the DIF remain uncertain, although some sources of uncertainty have changed since the Plan was adopted in September of 2020. The uncertainties include, among others, the variable trends in COVID-19 infections, rising inflation and interest rates, the possibility of recession, supply chain pressures, geopolitical tensions and evolving consumer and depositor behavior, any of which could have longer-term effects on the condition and performance of the banking industry.

The banking industry has remained a source of strength for the economy, in part, because its stronger capital position has better positioned banks to withstand losses compared to 2008. Capital levels remained

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[11] FDIC, Annual Report 2021, Assets and Deposits of Failed or Assisted Insured Institutions and Losses to the Deposit Insurance Fund, 1934-2021, page 190, available at https://www.fdic.gov/about/financial-reports/reports/2021annualreport/2021-arfinal.pdf.

[12] "Problem" institutions are institutions with a CAMELS composite rating of "4" or "5" due to financial, operational, or managerial weaknesses that threaten their continued financial viability.

strong at banks in the first quarter of 2022, as banks held a higher amount and quality of capital than just prior to the 2008-2013 banking crisis.

While many banks built substantial levels of reserves for potential losses in 2020, banks significantly reduced the pace of additional loan loss provisioning for most loan categories, with the industry reporting aggregate negative provisions in all four quarters of 2021 as the economic outlook strengthened and the expectation for future credit losses declined significantly relative to 2020. However, banks have reported positive provisions in the first quarter of 2022, implying a return to more normal provisioning behavior.

To anticipate declines in capital that could trigger losses from bank failures, the FDIC also monitors other measures, such as earnings, asset quality, and supervisory ratings. Quarterly loan balances grew through the second half of 2021 and into the first quarter of 2022, reflecting broad-based loan demand. Asset quality and supervisory ratings generally remain strong. Asset quality indicators improved through 2021. As of March 31, 2022, 0.84 percent of loan and lease balances were noncurrent, down 30 basis points from a year ago, and well below the peak of 5.46 percent in the first quarter of 2010.

The banking industry reported an increase in full year 2021 income primarily due to negative provision expense in all four quarters of the year. Fourth quarter net income improved from a year ago due to higher net interest income and negative provisions while first quarter 2022 net income declined due to higher and positive provisions. While provisions are positive and caused the decline in quarterly net income, the current level remains low compared to pre-pandemic levels. The net interest margin for the industry remained stable from the prior quarter and from the year-ago quarter, as growth in earning assets has been equal to the growth in net interest income. The average return-on-assets ratio (ROA) decreased from a decade-high of 1.38 percent in first quarter 2021 to 1.00 percent in first quarter 2022.

The proposed increase in assessment rates is estimated to have a modest effect on banking industry income. The effect of the change in assessments on an institution's income is measured by the change in deposit insurance assessments as a percent of income before assessments and taxes. Given the assumptions in the analysis, for the industry as a whole, staff estimate that the estimated annual increase in assessments would average 1.0 percent of income, which includes an average of 0.9 percent for small banks and an average of 1.0 percent for large and highly complex institutions.[13] The banking industry remained resilient moving into the second half of 2022 despite the extraordinary challenges of the pandemic and recent economic uncertainties. Strong liquidity and capital levels should help to mitigate any potential unexpected credit stress across loan portfolios. Given the relative strength in the condition of the banking industry over the past several quarters, increasing assessment rates beginning in 2023 would reduce the likelihood that the FDIC would need to later impose a pro-cyclical increase in assessment rates during a potential future period of banking industry stress.

Other factors that affect the reserve ratio

The FDIC also monitors other factors that affect the reserve ratio, including changes in bank risk profiles, which influence assessment rates; growth in the assessment base; DIF investment income and unrealized gains and losses on investments; and operating expenses. The assessment base grew by 1.3 percent in the first quarter of 2022, roughly in line with the pre-pandemic quarterly average. Operating expenses remained steady, while low investment returns coupled with elevated unrealized losses on securities held by the DIF have limited growth in the fund balance, and contributed to a relatively flat fund balance in the first quarter of 2022.

[13] Earnings or income are annual income before assessments and taxes. Annual income is assumed to equal income from April 1, 2021 through March 31, 2022.

Assessment revenue is still the main contributor to growth in the DIF balance. However, improvement in banks' risk-based pricing profiles resulted in a decline in the industry's weighted average assessment rate over the last year. For over one year, the actual industry weighted average assessment rate has been below the average assessment rate of 4.0 basis points assumed in the analysis that informed the initial establishment of the Plan. The weighted average assessment rate for all banks was approximately 3.7 basis points for the assessment period ending March 31, 2022, compared to approximately 4.0 basis points when the Plan was established.

Growth in the fund balance has been limited by a prolonged period of low investment returns on securities held by the DIF. Recently, as a result of the rising interest rate environment and market expectations leading up to such rate increases, the DIF has also experienced elevated unrealized losses on securities. Unrealized losses on available-for-sale securities in the DIF portfolio contributed to a relatively flat DIF balance in the first quarter of 2022. Unrealized losses were due to rising yields as market participants reacted to expectations of increased inflation and tighter monetary policy. Future market movements may temporarily increase unrealized losses over the near term, to the extent that market participants have not already priced in these actions. However, staff expect that higher investment returns will eventually outpace unrealized losses over the longer-term as future cash proceeds are reinvested at higher rates.

Projections for Fund Balance and Reserve Ratio

Staff updated analysis and projections for the fund balance and reserve ratio and project that, absent an increase in assessment rates, the reserve ratio is at risk of not reaching the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028.

To update projections, staff developed two scenarios that assume different levels of insured deposit growth and average assessment rates, both of which staff view as reasonable based on current and historical data. For insured deposit growth, staff assumed annual growth rates of 4.0 percent and 3.5 percent, respectively. These insured deposit growth rates represent a range of excess insured deposits resulting from the pandemic being retained. The assumption of a 4.0 percent annual growth rate reflects retention of all of the estimated $1.13 trillion of excess deposits in insured accounts, with this amount not contributing to further growth, while the remaining balance of insured deposits continues to grow at the pre-pandemic average annual rate of 4.5 percent.

Alternatively, a 3.5 percent annual insured deposit growth rate assumption reflects banks retaining about 60 percent of the estimated excess insured deposits resulting from the pandemic, with this amount not contributing to further growth, while the remaining balance of insured deposits, grows at the pre-pandemic average annual rate of 4.5 percent.

The two scenarios also apply different assumptions for average annual assessment rates. The weighted-average assessment rate for all banks during 2019, prior to the pandemic, was about 3.5 basis points and rose to 4.0 basis points, on average, during 2020. The weighted average assessment rate for all IDIs was approximately 3.7 basis points for the assessment period ending March 31, 2022. For the scenario in which all excess insured deposits are retained, staff assumed a lower assessment rate of 3.5 basis points, and for the scenario in which some excess insured deposits recede, staff assumed an assessment rate of 4.0 basis points.

Staff projected the date that the reserve ratio would likely reach the statutory minimum of 1.35 percent in each scenario, shown below in Table 2.[14] Under Scenario A, which assumes annual insured deposit growth of

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[14] For simplicity, the analysis shown in Table 2 assumes that: (1) the assessment base grows 4.5 percent, annually; (2) interest income on the deposit insurance fund balance is zero; (3) operating expenses grow at 1

4.0 percent and an average annual assessment rate of 3.5 basis points, staff project that the reserve ratio would reach 1.35 percent in the third quarter of 2034, after the statutory deadline of September 30, 2028.

Table 2 – Scenario Analysis: Expected Time to Reach a 1.35 Percent Reserve Ratio

	Annual Insured Deposit Growth Rate [Percent]	**Average Annual Assessment Rate [Basis Points]**	**Date the Reserve Ratio Reaches 1.35 Percent**	**As of 1Q 2023, Average Annual Assessment Rate Increases by…**	
				1 BPS	**2 BPS**
Scenario A	4.0	3.5	3Q 2034	3Q 2026	4Q 2024
Scenario B	3.5	4.0	2Q 2027	2Q 2025	2Q 2024

In Scenario B, which assumes annual insured deposit growth of 3.5 percent and an average annual assessment rate of 4.0 basis points, staff project that the reserve ratio would reach 1.35 percent in the second quarter of 2027, five years from the second quarter of 2022 and only five quarters before the statutory deadline. Even under these relatively favorable conditions, which assume lower insured deposit growth and a higher average assessment rate than experienced over the last year, the reserve ratio reaches the statutory minimum of 1.35 percent close to the statutory deadline. While staff project that the reserve ratio would reach the statutory minimum before the deadline in this Scenario, any number of uncertain factors—including unexpected losses, accelerated insured deposit growth, or lower weighted average assessment rates due to improving risk profiles of institutions—could materialize between now and the second quarter of 2027, and easily prevent the reserve ratio from reaching the minimum by the statutory deadline.

Both Scenarios apply assumptions for insured deposit growth and average assessment rates that the FDIC views as reasonable based on current and historical data, and that do not widely differ from each other in magnitude. These relatively minor changes in the underlying assumptions result in considerably different outcomes, as the reserve ratio is projected to reach the statutory minimum of 1.35 percent in 2034 in Scenario A, compared to 7 years earlier in Scenario B. The disparity between outcomes under these Scenarios demonstrates the sensitivity of the projections to slight variations in any key variable. Given these uncertainties, staff projected the DIF balance and associated reserve ratio under each Scenario, applying an increase in average assessment rates beginning in the first assessment period of 2023. Under Scenario A, a 1 basis point increase in the average assessment rate is projected to result in the reserve ratio, reaching the minimum in the third quarter of 2026, and a 2 basis point increase is projected to result in the reserve ratio reaching the minimum in the fourth quarter of 2024. Under Scenario B, a 1 basis point increase in the average assessment rate is projected to result in the reserve ratio reaching the minimum in the second quarter of 2025, and a 2 basis point increase is projected to result in the reserve ratio reaching the minimum in the second quarter of 2024.

While staff project that the reserve ratio would reach the minimum before the statutory deadline under Scenario B with no increase in assessment rates, or under Scenario A with a 1 basis point increase in the average

percent per year; and (4) failures for the five-year period from 2022 to 2026 would cost approximately $1.8 billion.

assessment rate, these outcomes are still over 4 years away and carry higher risk that the FDIC would have to increase assessment rates in the face of a future downturn or industry stress.

In contrast, the proposed increase of 2 basis points would improve the likelihood that the reserve ratio will reach the statutory minimum ahead of the statutory deadline, building in a buffer in the event of uncertainties as described above that could stall or counter growth in the reserve ratio. Under both scenarios described above, an increase in assessment rates of 2 basis points is projected to result in the reserve ratio reaching the statutory minimum of 1.35 percent approximately two years from now.

Reaching the minimum reserve ratio of 1.35 percent ahead of the statutory deadline would mean that the FDIC would exit its Restoration Plan. If the reserve ratio subsequently declined below the statutory minimum, the FDIC would establish a new restoration plan and would have an additional eight years to restore the reserve ratio.

AMENDED RESTORATION PLAN

To improve the likelihood that the FDIC meets its statutory requirement to restore the reserve ratio to 1.35 percent by September 30, 2028, staff recommend that the Board establish and authorize publication of an Amended Restoration Plan that would, among other things, reflect a proposed uniform increase in initial base deposit insurance assessment rates of 2 basis points. In conjunction with the Amended Restoration Plan, staff are separately and concurrently recommending that the Board authorize publication of a notice of proposed rulemaking to implement a uniform, 2 basis point increase in initial base deposit insurance assessment rates, beginning with the first quarterly assessment period of 2023.

Staff recommend that the FDIC Board amend the Restoration Plan adopted on September 15, 2020, as follows:

1. The Amended Restoration Plan will reflect a uniform increase in initial base deposit insurance assessment rates of 2 basis points for all insured depository institutions (IDIs).

2. The FDIC will propose a rulemaking to increase initial base deposit insurance assessment rates uniformly by 2 basis points, effective the first quarterly assessment period of 2023, and publish the notice of proposed rulemaking in the **Federal Register** as soon as possible.

3. The FDIC projects that the rates proposed in the notice of proposed rulemaking would increase the likelihood that the reserve ratio would be restored to 1.35 percent by September 30, 2028.

4. The FDIC will continue to monitor deposit trends, potential losses, and other factors that affect the reserve ratio.

5. At least semiannually, staff will update the Board on analysis and projections for the fund balance and reserve ratio and, if necessary, recommend any modifications to the Amended Restoration Plan.

6. This Amended Restoration Plan shall be implemented immediately.

To meet the statutory requirement, the reserve ratio must be restored to at least 1.35 percent no later than September 30, 2028. The banking industry remained resilient moving into the second half of 2022 despite the extraordinary challenges of the pandemic, and is well-positioned to absorb such a rate increase. Overall, staff believe the recommended uniform increase in initial base assessment rates of 2 basis points appropriately balances several considerations, including the goal of reaching the statutory minimum reserve ratio reasonably promptly in order to strengthen the fund and reduce the risk of pro-cyclical assessments, the goal of

maintaining stable and predictable assessments for banks over time, and the projected effects on bank earnings.

As noted in prior semiannual updates to the Board, loss and reserve ratio projections made so far into the future are subject to considerable uncertainty. Losses could be higher or lower than anticipated if economic conditions worsen or financial stresses facing banks prove more or less severe. For example, DIF loss projections may increase if the quality of bank assets quickly deteriorates or capital markets become severely constrained, and income could be affected by the factors described previously. Insured deposit growth could be higher or lower based on future economic conditions or if those deposits resulting from extraordinary growth begin to recede. Higher investment returns due to a higher interest rate environment could result in continued unrealized losses over the near term but would bolster growth in the DIF over the longer-term.

Under the Amended Restoration Plan, staff will continue to update projections for the fund balance and reserve ratio at least semiannually while such Plan is in effect. Staff continue to believe that frequent updates are necessary because loss and reserve ratio projections made so far into the future are subject to considerable uncertainty.

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