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# Bank and Thrift Deposit Insurance Premiums: The Record from 1934 to 2004

Barbara Miles and William Jackson
Specialists in Financial Institutions
Government and Finance Division

## Summary

Since federal deposit insurance first came into being in the mid-1930s, commercial banks and savings associations (thrifts) have paid premiums into government insurance reserves to cover losses due to financial institution failures. We illustrate this history in three tables showing scheduled and effective deposit insurance premiums each year since 1934. Through most of that time, thrifts have paid higher premiums than banks, reflecting in part their different nature. Thrifts, for example, could not offer checking accounts until the 1980s, and were largely restricted to home mortgage lending so that competition with banks was muted. Banks and thrifts have come to offer similar services and the government has standardized insurance premiums for the two institutions to reflect their competition. Deposit insurance premiums have been the subject of legislation several times over recent years including measures passed by the House. Most banks and thrifts pay essentially no premiums, but the potential for future assessments continues to drive "reform" legislation. This report provides the rationale and amounts of assessments since federal deposit insurance began and will be updated annually.

## An Overview of Federal Deposit Insurance Premiums

**1933-1950.** Deposit insurance began for commercial banks with passage of the Banking Act of 1933 that set up the Federal Deposit Insurance Corporation (FDIC).[1] The initial premium was set at 50 cents per $100 of total insured deposits, with half paid on admission to the fund, and the rest subject to later call. Accounts were originally covered up to $2,500 per depositor per bank. For savings and loan associations, also known as "thrifts," insurance began with 1934 National Housing Act, which set up the Federal

[1] 48 Stat. 162 (June 16, 1933).

Savings and Loan Insurance Corporation (FSLIC).[2] Its beginning annual premium was set at 25 cents per $100 of total deposits, with the possibility of another 25 cents if needed. Accounts were covered up to $5,000 per depositor per thrift, then applied for banks July 1, 1934, under their "Permanent Insurance Fund" of FDIC. Scheduled rates were reset for both banks and thrifts in 1935 and maintained until 1950 (Table 1).[3]

**1950-1980.** In 1950, the thrift premium was lowered (Table 2), although Congress retained provision for special assessments.[4] Also, in 1950, legislation provided for FDIC to pay rebates of unneeded assessment income to banks: equal to 60% of net assessment income in any year. Effective premiums fell.[5] Congress raised basic insurance coverage for both thrifts and banks to $10,000 simultaneously. In 1960, FDIC raised bank rebates to two-thirds of net assessment income.[6] Subsequently, Congress periodically raised basic insurance coverage: in 1966 to $15,000; in 1969 to $20,000, in 1974 to $40,000, and in 1980 to $100,000. Also, in 1980, bank rebates were lowered back to 60% of net assessment income.[7]

**1980s.** In 1985, FSLIC used its fifty-year-old authority to levy the fullest allowable special assessment to meet expenses of mounting thrift failures, opening the largest bank-thrift premium discrepancy up to that time. FDIC, also under pressure from bank failures, eliminated rebates for banks the same year. Neither had authority to raise premiums until the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).[8] In reaction to the savings and loan implosion of vast size, FIRREA changed the insurance framework for thrifts. FIRREA ended FSLIC and the new law transferred its insurance functions to FDIC, which set up a new Savings Association Insurance Fund (SAIF) to cover thrifts. Bank insurance coverage was separated into the Bank Insurance Fund (BIF), which remained a part of FDIC. SAIF accepted premiums but was not responsible for any new thrift failures until July 1, 1995.[9]

**1990s.** FDIC subsequently raised premiums for banks in 1990, and thrifts in 1991 (Table 3). Further, because of purchases, mergers, deposit assumptions, and other takeovers that occurred as part of the cleanup of the thrift industry, the demarcation of institutions by insurance fund became less clear. Increasingly, banks could be found holding thrift deposits covered by SAIF, as well as BIF. Likewise, savings associations could receive insurance coverage from BIF rather than SAIF. Congress required both funds to achieve balances of at least 1.25% of insured deposits (the designated reserve

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[2] 48 Stat. 1246 (June 27, 1934).

[3] 49 Stat. 684 (Aug. 23, 1935) also shifted the assessment base for banks from insured deposits to total domestic deposits. Thrifts were affected by 49 Stat. 293 (May 28, 1935).

[4] 49 Stat. 293 (June 27, 1950).

[5] 64 Stat. 873 (Sep. 21, 1950).

[6] 74 Stat. 546 (July 14, 1960).

[7] 80 Stat. 1028 (Oct. 16, 1966); 83 Stat. 171 (Dec. 23, 1969); 88 Stat. 1500 (Oct. 28, 1974); 94 Stat. 132 (March 31, 1980).

[8] 103 Stat. 183 (Aug. 9, 1989).

[9] SAIF was responsible for paying debt incurred in connection with FSLIC's failed attempts to resolve thrift failures before FIRREA.

ratio). Should either fund not attain that percentage, it would levy assessments to fill the shortfall, although Congress gave SAIF more time to reach that standard.

A statute profoundly altered deposit insurance premiums with the shift from flat rates to risk-based premiums under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).[10] This follow-up of FIRREA called for risk-based premiums that differentiated among individual institutions according to certain safety and soundness criteria. Thus, beginning in 1993 until June 1, 1995, all institutions, no matter which fund covered them, paid premiums according to the same schedule. The overwhelming majority were paying the lowest rate of 23 cents per $100 of deposits. Thrifts as a group, however, were not in as good condition as banks and, thus, paid about a half cent more on average.

All institutions remained subject to risk-based requirements, with the riskiest institutions continuing to pay the highest scheduled rates. On June 1, 1995, however, the scheduled rate for the safest BIF-covered banks fell dramatically, reflecting the fact that fund inflows had recapitalized BIF to its statutory designated reserve ratio. In addition, BIF refunded excess assessments to banks in September 1995. The BIF rate fell further in 1996 to the flat "maintenance" fee of $2,000. SAIF-covered institutions continued to pay higher rates, reflecting the fact that the fund was nowhere near the required ratio and was paying out large amounts to service bonds issued to shore up the now-defunct FSLIC in 1987 ("FICO" bonds). The resulting imbalances created by this situation led to the Deposit Insurance Funds Act of 1996[11] that provided for a large one-time recapitalization assessment on SAIF-covered institutions. They paid this hit in 1996, amounting to 68 cents per $100 of deposits that thrifts held on March 31, 1995.

After SAIF's recapitalization, and taking into account conditions of slow deposit growth and minor insurance losses, FDIC reduced the rate schedule to a range of zero to 27 cents per $100 of deposits, although it kept the "base" rate schedule of four to 31 cents.

**2000-2004.** Thrifts continued to pay more for deposit insurance until 2000, when responsibility for the FICO debt became equalized for all institutions.[12] In fact, because of the healthy status of the funds and depository institutions, the vast majority were paying only the FICO assessment and no insurance premiums by that time, a benefit to them and to newly chartered banks and thrifts that has continued. Such latter institutions, which have never contributed to either FDIC fund, are sometimes labeled "free riders." Further, the deposits that new institutions hold dilute fund reserves — particularly for BIF — raising concerns that the government must raise premiums on all insured institutions to maintain the designated reserve ratio. This prospect is a major impetus to reform proposals.

Finally, the 1996 law called for merging SAIF and BIF into a single fund as early as January 1, 1999, if there were no institutions with thrift charters in existence then.

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[10] 105 Stat. 2236 (Dec. 19, 1991).

[11] §§2701-2711, 110 Stat. 3009 et seq. (Sep. 30, 1996).

[12] FICO ("The Financing Corporation") is organizationally administered via another agency, the Federal Housing Finance Board.

Thrift charters remain outstanding and are expected to continue. Merging the funds, a matter on which there is a broad consensus, remains a priority for legislation.

## Deposit Insurance Premiums for Banks and Thrifts

The first table contains the years through 1949, after which a divergence began between scheduled and effective premiums paid by banks that was due to the program of rebates. The second table contains the years 1950 to 1989 after which passage of FIRREA shifted all insurance to FDIC through BIF and SAIF. The third table contains the years 1990 through 2003. BIF data for 1991 reflect a midyear change in the bank premium. Data from 1993 reflect the ranges of risk-based premiums. SAIF data for 1996 include the one-time recapitalization assessment (shown in parentheses) beyond the risk-based premium paid that year. Data for 1997 and forward show the FICO assessments (in brackets), when the government spread responsibility for paying off that debt from SAIF-insured-only to all FDIC-insured institutions.

The second and third columns show the scheduled and effective rates applicable to the deposit insurance fund used for most banks for each year. The fourth and fifth columns show the scheduled and effective rates applicable to the deposit insurance fund covering thrifts. We have not computed effective rates for savings associations in 1996 because of the distorting effect of the recapitalization payment. Effective rates for 1996 and forward for banks, and 1997 and forward for savings associations, are net of the FICO assessment that is assessed quarterly and paid separately from regular premiums.[13] Data are expressed as cents per $100 of total deposits (also known as "basis points"). These small values are important in financial markets because of narrow margins.

Sources for the tables are FDIC, as computed through 2004, and *Alternative Federal Deposit Insurance Regimes*, Research Paper #152, by James Barth, John Feid, Gabriel Riedel, and Hampton Tunis, Federal Home Loan Bank Board, 1989.

### Table 1. Scheduled and Effective Deposit Insurance Premiums for Banks (FDIC) and Thrifts (FSLIC), 1934-1949

(Cents per $100 of Assessed Deposits)

| | FDIC | | FSLIC | |
|---|---|---|---|---|
| | **scheduled** | **effective** | **scheduled** | **effective** |
| 1934 | 50.00 | 25.00 | 25.00 | 25.00 |
| 1935-49 | 8.33 | 8.33 | 12.50 | 12.50 |

[13] FICO assessments shown are averages of rates recalculated quarterly by the FDIC just to cover the debt service due to FICO.

## Table 2. Scheduled and Effective Deposit Insurance Premiums for Banks (FDIC) and Thrifts (FSLIC), 1950-1989

(Cents per $100 of Assessed Deposits)

| | FDIC | | FSLIC | |
|---|---|---|---|---|
| | **scheduled** | **effective** | **scheduled** | **effective** |
| 1950 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1951 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1952 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1953 | 8.33 | 3.57 | 8.30 | 8.30 |
| 1954 | 8.33 | 3.57 | 8.30 | 8.30 |
| 1955 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1956 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1957 | 8.33 | 3.57 | 8.30 | 8.30 |
| 1958 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1959 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1960 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1961 | 8.33 | 3.23 | 8.30 | 8.30 |
| 1962 | 8.33 | 3.13 | 8.30 | 8.30 |
| 1963 | 8.33 | 3.13 | 8.30 | 8.30 |
| 1964 | 8.33 | 3.23 | 8.30 | 8.30 |
| 1965 | 8.33 | 3.23 | 8.30 | 8.30 |
| 1966 | 8.33 | 3.23 | 8.30 | 8.30 |
| 1967 | 8.33 | 3.33 | 8.30 | 8.30 |
| 1968 | 8.33 | 3.33 | 8.30 | 8.30 |
| 1969 | 8.33 | 3.33 | 8.30 | 8.30 |
| 1970 | 8.33 | 3.57 | 8.30 | 8.30 |
| 1971 | 8.33 | 3.45 | 8.30 | 8.30 |
| 1972 | 8.33 | 3.33 | 8.30 | 8.30 |
| 1973 | 8.33 | 3.85 | 8.30 | 8.30 |
| 1974 | 8.33 | 4.35 | 8.30 | 8.30 |
| 1975 | 8.33 | 3.57 | 8.30 | 8.30 |
| 1976 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1977 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1978 | 8.33 | 3.85 | 8.30 | 8.30 |
| 1979 | 8.33 | 3.33 | 8.30 | 8.30 |
| 1980 | 8.33 | 3.70 | 8.30 | 8.30 |
| 1981 | 8.33 | 7.14 | 8.30 | 8.30 |
| 1982 | 8.33 | 7.69 | 8.30 | 8.30 |
| 1983 | 8.33 | 7.14 | 8.30 | 8.30 |
| 1984 | 8.33 | 8.00 | 8.30 | 8.30 |
| 1985 | 8.33 | 8.33 | 20.80 | 20.80 |
| 1986 | 8.33 | 8.33 | 20.80 | 20.80 |
| 1987 | 8.33 | 8.33 | 20.80 | 20.80 |
| 1988 | 8.33 | 8.33 | 20.80 | 20.80 |
| 1989 | 8.33 | 8.33 | 20.80 | 20.80 |

**Table 3. Scheduled and Effective Deposit Insurance Premiums for Banks (BIF) and Thrifts (SAIF), 1990-2003**
(Cents per $100 of Assessed Deposits)

| | BIF | | SAIF | |
|---|---|---|---|---|
| | **scheduled** | **effective** | **scheduled** | **effective** |
| 1990 | 12.00 | 12.00 | 20.80 | 20.80 |
| 1991 | 19.50/23.00 | 21.25 | 23.00 | 23.00 |
| 1992 | 23.00 | 23.00 | 23.00 | 23.00 |
| 1993 | 23.00-31.00 | 24.40 | 23.00-31.00 | 25.00 |
| 1994 | 23.00-31.00 | 23.80 | 23.00-31.00 | 24.40 |
| 1995 | 23.00-31.00 | 12.40 | 23.00-31.00 | 23.40 |
| 1996 | 0.00-27.00 | 0.24 | 23.00-31.00 (+68.00) | — |
| 1997 | [1.28] 0.00-27.00 | 0.08 | [6.40] 0.00-27.00 | 0.40 |
| 1998 | [1.22] 0.00-27.00 | 0.08 | [6.10] 0.00-27.00 | 0.20 |
| 1999 | [1.19] 0.00-27.00 | 0.11 | [5.93] 0.00-27.00 | 0.20 |
| 2000 | [2.07] 0.00-27.00 | 0.14 | [2.07] 0.00-27.00 | 0.20 |
| 2001 | [1.90] 0.00-27.00 | 0.14 | [1.90] 0.00-27.00 | 0.40 |
| 2002 | [1.75] 0.00-27.00 | 0.22 | [1.75] 0.00-27.00 | 0.30 |
| 2003 | [1.61] 0.00-27.00 | 0.20 | [1.61] 0.00-27.00 | 0.14 |
| 2004 | [1.51] 0.00-27.00 | 0.22 | [1.51] 0.00-27.00 | 0.08 |

## Legislative Implications

BIF's reserve ratio has hovered around its 1.25% minimum in recent periods. If the ratio falls and stays below that value, FDIC must increase premiums for banks. Any increase seems numerically small for BIF, and might remain unnecessary for the better-capitalized SAIF. Yet the possibility of higher premiums on sound banks could add industry impetus to legislation to reform deposit insurance: eliminating "free riders" and making other changes to BIF and SAIF funding. Depository institutions operate with extremely small profit margins and would be affected by any increase in this cost of doing business. H.R. 522, passed by the House in 2003, and House-passed legislation in the 107th Congress, resulted from such concerns. See CRS Report RS20724, *Federal Deposit and Share Insurance: Proposals for Change*, by William Jackson, and CRS Report RL31552, *Deposit Insurance: The Government's Role and Its Implications for Funding*, by Gillian Garcia, William Jackson, and Barbara Miles, for further analysis.