The Federal Deposit Insurance Corporation (FDIC): Efforts to Support Financial and Housing Markets

Darryl E. Getter
Specialist in Financial Economics

Oscar R. Gonzales
Analyst in Economic Development Policy

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Summary

The Federal Deposit Insurance Corporation (FDIC) was established as an independent government corporation under the authority of the Banking Act of 1933, also known as the Glass-Steagall Act (P.L. 73-66, 48 Stat. 162, 12 U.S.C.), to insure bank deposits. This report discusses recent actions taken by the FDIC in support of financial and housing markets, which include restoration of the Deposit Insurance Fund, the development of the Temporary Liquidity Guarantee Program, efforts to reduce foreclosures, and establishment of the proposed Public-Private Investment Fund. Legislation such as H.R. 786 (introduced by Representative Barney Frank); H.R. 1106, Helping Families Save Their Homes Act of 2009 (introduced by Representative John Conyers, Jr., with 24 co-sponsors); and S. 541, The Depositor Protection Act of 2009 (introduced by Senator Christopher Dodd with 12 co-sponsors) have also been introduced to increase the effectiveness of the FDIC's efforts to respond to recent market weaknesses.

This report will be updated as events warrant.

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Brief Overview of FDIC Functions

Deposit Insurance

The Federal Deposit Insurance Corporation (FDIC) was established as an independent government corporation under the authority of the Banking Act of 1933, also known as the Glass-Steagall Act, to insure bank deposits.[1] State bank insurance systems were pioneered in the 19th century, and Congress had proposed legislation then to develop a federal bank deposit insurance system. It was not until 1933, however, that the FDIC was established as the first national deposit insurance system. The most severe banking crisis in the nation's history led to the failure of 9,000 banks between the stock market crash of October 1929 and March 1933.[2] In the first months of 1933 alone, over 4,000 banks failed.[3] One year after the establishment of the FDIC, only 9 banks of the remaining 13,000 insured financial institutions in the U.S. became insolvent.[4]

An important issue during the early years after the establishment of the FDIC was the determination of the appropriate level of deposit insurance coverage. If the level of deposit insurance was insufficient, it was feared that this may still result in bank runs. Bank deposits were originally insured up to $2,500 in January 1934, but given the continued failure of banks, Congress saw the need to temporarily double deposit insurance to $5,000 by June of the same year. A year later, the $5,000 temporary increase was made permanent.

Over time, financial and economic disruptions were often associated with bank failures and changes in deposit insurance, as Congress considered options and alternatives to stabilize financial markets.[5] In 1950, after the post-war boom led to an economic decline which resulted in additional bank failures, the $5,000 deposit insurance limit was increased to $10,000 by Congress. The recession of the early 1960s resulted in bank failures, and in 1966, Congress instituted a 50% increase in deposit insurance, bringing the deposit insurance limit to $15,000. Three years later, in 1969, the deposit insurance limit was increased to $20,000 and to $40,000 in

[1] P.L. 73-66, 48 Stat. 162, 12 U.S.C. See Christine Bradley, *A Historical Perspective on Deposit Insurance*, Federal Deposit Insurance Corporation, FDIC Banking Review, Washington, DC, December 2000, p. 3, http://www.fdic.gov/bank/analytical/banking/2000dec/brv13n2_1.pdf.

[2] FDIC, *A History of the FDIC 1933-1983: the First Fifty Years*, Washington, DC, 1983, http://www.fdic.gov/bank/analytical/firstfifty/.

[3] Remarks of Martin J. Gruenberg, Vice Chairman Federal Deposit Insurance Corporation (FDIC), *The International Role of Deposit Insurance,* The Exchequer Club, Washington, D.C., November 14, 2007 at http://www.fdic.gov/news/news/speeches/archives/2007/chairman/spnov1407.html.

[4] To fund deposit insurance, the FDIC established a Temporary Federal Deposit Insurance Fund (TFDIF). The TFDIF charged 13,201 banks insurance premiums. Of these, 12,987 were commercial banks and 214 were mutual savings banks. These represented 90 percent of all commercial banks and 36 percent of all mutual savings banks. The TFDIF changed into the permanent Deposit Insurance Fund in 1935 and the FDIC was allowed to borrow from the Treasury to cover funding due to emergency needs.

[5] For an overview of the relationship of financial disruptions and deposit insurance, see Sebastian Schich, "Financial Crisis: Deposit Insurance and Related Financial Safety Net Aspects", *Financial Market Trends*, OECD, 2008, available at http://www.oecd.org/dataoecd/36/48/41894959.pdf. The report also outlines four pillars for a safety net in financial systems, including bank deposit insurance, failure resolution, prudential regulation and supervision, and lender of last resort. For deposit insurance levels in different countries, see Sebastian Schich, "Financial Turbulence: Some Lessons Regarding Deposit Insurance," *Financial Market Trends*, OECD, 2008, page 66, available at http://www.oecd.org/dataoecd/32/54/41420525.pdf.

1974. By 1980, the deposit insurance limit stood at $100,000 and remained at that level until 2008. **Table 1** outlines changes in FDIC bank deposit insurance from 1934 to 2008.

Table 1. Brief History of FDIC Deposit Insurance

1934-2008

Date	Bank Deposit Insurance Limit
January 1934	$2,500
June 1934	$5,000 (temporary increase)
1935	$5,000 (permanent increase)
1950	$10,000
1966	$15,000
1969	$20,000
1974	$40,000
1980	$100,000
2008	$250,000 (temporary increase until 12/31/2009)

Source: Christine Bradley, *A Historical Perspective on Deposit Insurance*, Federal Deposit Insurance Corporation, FDIC Banking Review, Washington, DC, December 2000, p. 6-17, http://www.fdic.gov/bank/analytical/banking/2000dec/brv13n2_1.pdf.

Notes: Figures do not include insurance for Individual Retirement Accounts (IRAs), which are currently insured up to $250,000 per account.

The FDIC insures demand deposit (non-interest bearing) accounts, interest bearing checking accounts, money market deposit accounts, savings accounts, and certificates of deposit.[6] The FDIC also insures traditional and Roth Individual Retirement Accounts (IRAs).[7] Bank deposits and individual retirement accounts in the same bank for the same individual are insured separately by the FDIC. The Federal Deposit Insurance Reform Act, which was enacted on February 8, 2006, raised the limit on IRA insurance from $100,000 to $250,000.[8] Annuities, which are similar to traditional Individual Retirement Accounts, are not insured by the FDIC.[9]

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[6] In addition, the FDIC insures Money Market Deposit Accounts, which are savings accounts that allow a limited number of checks to be written each month, Negotiable Orders of Withdrawal (NOW), and outstanding cashiers' checks. See CRS Report RL33036, *Federal Financial Services Regulatory Consolidation: An Overview*, by Walter W. Eubanks.

[7] The FDIC also insures the following retirement accounts: Keogh retirement accounts for the self-employed, 457 Plan retirement accounts for state government employees, and employer-sponsored defined contribution plan retirement accounts that are self-directed, which are primarily 401(k) accounts and include SIMPLE 401(k) accounts, Simplified Employee Pension (SEP) IRAs, and Savings Incentive Match Plans for Employees (SIMPLE) IRAs. See CRS Report RS21987, *When Financial Businesses Fail: Protection for Account Holders*, by Walter W. Eubanks.

[8] P.L. 109-171, 110 Stat. 9.

[9] The FDIC does not insure stocks, bonds, mutual funds, money market funds, life insurance policies, annuities, or municipal securities, even if these products were purchased from an insured bank. The FDIC does not insure the contents of safe deposit boxes, losses due to theft or fraud at the bank, losses due to accounting errors, and investments backed by the U.S. government, such as Treasury securities and Savings Bonds. See Federal Deposit Insurance Corporation, *FDIC Consumer News - Spring 2001*, FDIC, Washington, DC, 2001, http://www.fdic.gov/CONSUMERS/consumer/news/cnspr01/cvrstry.html.

Resolution of Bank Failures

When a bank is insolvent or has failed, the FDIC follows a purchase and assumption (P&A) process.[10] The FDIC will close the bank and seek purchasers of bank assets (performing loans) that are also willing to assume the liabilities (insured deposits). Typically, most depositors have access to their insured funds within one business day after the bank closure. With certain deposits, such as 401(k) accounts and retirement accounts, which are insured at $250,000, additional time is required to make an insurance determination. The FDIC estimates that this should not be longer than several days. In some situations, depositors may receive a portion of their uninsured funds depending on the sale of the failed bank's assets, which may take one or two years.[11]

The FDIC administered 25 bank failures from January to December 2008. In comparison, 16 banks failed in the first two months of 2009.[12] A list of the largest banks that failed in 2008 is presented in **Table A-1**. The table also shows that the Deposit Insurance Fund (DIF), the fund which holds the premiums collected from member institutions and is then used to pay depositors, may lose between $12 billion to $17 billion as a result of bank failures in 2008.[13] Large losses to the DIF are likely to come from IndyMac Bank, Downey Savings and Loan, PFF Bank and Trust, Franklin Bank, and First National Bank of Nevada. The recent increase in bank failures has resulted in a decline in the DIF from over $50 billion in 2006 to an estimated $35 billion in 2009. The FDIC has a $30 billion line of credit from the U.S. Treasury in case funds from the DIF are not immediately available to meet the demands of a bank closure.[14]

Efforts to Support Financial and Housing Markets[15]

Increase in Deposit Insurance

The Emergency Economic Stabilization Act of 2008 temporarily raised deposit insurance until December 31, 2009.[16] Under the new 2008 deposit insurance limits, an individual checking account may be covered up to $250,000 and an Individual Retirement Account may be covered for $250,000. An individual having both of these accounts would receive total coverage of

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[10] See Federal Deposit Insurance Corporation, *Managing the Crisis: The FDIC and RTC Experience 1980-1994* (Washington, DC: Federal Deposit Insurance Corporation, 1998) at http://www.fdic.gov/bank/historical/managing/contents.pdf.

[11] FDIC, *FDIC Consumer News* , Fall 2008 – Special Edition: Your New, Higher FDIC Insurance Coverage, Washington, DC, 2008, http://www.fdic.gov/consumers/consumer/news/cnfall08/misconceptions.html.

[12] For a complete list see http://www.fdic.gov/BANK/HISTORICAL/BANK/index.html.

[13] These preliminary estimates are computed by the FDIC, and they may be found by going to the FDIC's failed bank list and viewing the press releases for each failed bank.

[14] For more detailed information concerning FDIC authority, see CRS Report RL34657, *Financial Institution Insolvency: Federal Authority over Fannie Mae, Freddie Mac, and Depository Institutions*, by David H. Carpenter and M. Maureen Murphy.

[15] See Sheila Bair, "Statement of Sheila C. Bair, Chairman, Federal Deposit Insurance Corporation on Turmoil in the U.S. Credit Markets: Examining Recent Regulatory Responses to the Committee on Banking, Housing and Urban Affairs, U.S. Senate," October 23, 2008, available at http://www.fdic.gov/news/news/speeches/archives/2008/chairman/spoct2308.html

[16] P.L. 110-343. See also CRS Report RL34730, *Troubled Asset Relief Program: Legislation and Treasury Implementation*, by Baird Webel and Edward V. Murphy.

$500,000 in a single bank. In the 111th Congress, H.R. 786 (Representative Barney Frank) proposed to make the increase in deposit insurance permanent.[17]

Support of the Deposit Insurance Fund

The FDIC is required by statute to set the designated reserve ratio (DRR) for the DIF, which is defined as the ratio of total deposits insured relative to funds in the DIF, so that it stays within the range of 1.15 to 1.50 percent. [18] Given the recent increase in deposit insurance coverage to $250,000 and simultaneous rise in bank failures, as previously discussed, the DIF has fallen below the required reserve ratio range.[19] The FDIC is required to set a restoration plan in motion to restore the fund to its statutorily mandated range. On October 7, 2008, the FDIC announced a plan to restore the DIF by the end of 2013.[20] Under the plan, deposit insurance would increase its assessments by 7 basis points beginning January 1, 2009. In the second quarter of 2009, riskier institutions would be asked to pay higher insurance rates relative to less risky institutions.

The FDIC has taken further actions in 2009 to support the DIF. On February 3, 2009, the FDIC asked Congress to increase its line of credit from the U.S. Treasury from $30 billion to $100 billion.[21] Consequently, H.R. 1106, Helping Families Save Their Homes Act of 2009 (Representative John Conyers, Jr., et al.) has a provision to increase the FDIC's borrowing authority from $30 billion to $100 billion from the U.S. Treasury.[22] S. 541, The Depositor Protection Act of 2009 (Senator Christopher Dodd et al.), has provisions to permanently increase the FDIC's borrowing authority to $100 billion and temporarily increase it up to $500 billion until December 31, 2010.[23]

The FDIC announced modifications to its original restoration plan on February 27, 2009.[24] The time horizon deemed necessary to accumulate the DRR level for the DIF fund was extended from the initial five years to seven years.[25] The risk-based deposit insurance rates charged to reflect differences in bank risk, scheduled to begin in the second quarter of 2009, were announced. The FDIC also announced an emergency special assessment of 20 basis points that would be imposed on member banks on June 30, 2009, and collected on September 30, 2009.

Temporary Liquidity Guarantee Program

On October 14, 2008, the FDIC announced the creation of the Temporary Liquidity Guarantee Program (TLGP) to encourage liquidity in the banking system.[26] One component of the program

[17] H.R. 786, Section 1.

[18] P.L. 109-171, The Federal Deposit Insurance Reform Act of 2005 (the Reform Act). See http://www.fdic.gov/deposit/insurance/initiative/index.html for highlights regarding coverage of the law and a link to the Reform Act.

[19] See statement made by John Bovenzi, Deputy to the Chairman and Chief Operating Officer of the FDIC, to the House Financial Services Committee on Februrary 3, 2009, at http://www.fdic.gov/news/news/speeches/chairman/spfeb0309.html.

[20] See http://www.fdic.gov/news/news/press/2008/pr08094.html.

[21] See http://www.fdic.gov/news/news/speeches/chairman/spfeb0309.html.

[22] H.R. 1106, Section 204.

[23] S. 541, Section 2.

[24] See http://www.fdic.gov/news/news/press/2009/pr09030.html.

[25] H.R. 786, Section 2 proposed to extend the restoration period to eight years.

[26] See the initial announcement at http://www.fdic.gov/news/news/press/2008/pr08100.html. See http://www.fdic.gov/ (continued...)

guarantees senior unsecured debt issued on or before June 30, 2009. Such debt structures include commercial paper, interbank funding debt, promissory notes, and any unsecured portion of secured debt. The guarantee would remain in effect until June 30, 2012, even if the maturity of these obligations extends beyond that date. On March 17, 2009, the debt guarantee portion of the TLGP program was extended from June 30, 2009, to October 31, 2009. Also, a surcharge would be imposed on any debt issued on or after April 1, 2009, with a maturity date of one year or more.[27] The other component of the program insures all non-interest-bearing deposit accounts, primarily payroll processing accounts used by businesses, which often exceed the $250,000 deposit insurance limit.[28]

Financial institutions eligible for participation in the TLGP program include entities insured by the FDIC, bank holding and financial holding companies headquartered in the United States, and savings and loan companies under section 4(k) of the Bank Holding Company Act (12 U.S.C. 1843). Although the TLGP is a voluntary program, eligible financial institutions were automatically registered to participate unless they had requested not to be by November 12, 2008. Eligible entities could also opt out of one or both of the program components.

After the first 30 days, institutions that remain in the program pay insurance fees.[29] To insure senior unsecured debt, the FDIC is assessing an annualized fee corresponding to 75 basis points. A 10-basis-point surcharge will be applied for non-interest-bearing deposit accounts above the $250,000 deposit insurance limit. According to testimony by the FDIC's Deputy to the Chairman, of 8,300 FDIC-insured institutions, almost 7,000 have opted in to the transaction account guarantee program, and nearly 7,100 banks and thrifts and their holding companies have opted into the debt guarantee program.[30]

Foreclosure Mitigation Efforts

The FDIC is working with several foreclosure mitigation initiatives. The chairman of the FDIC serves as a member of the Oversight Board of the HOPE for Homeowners Program (H4H).[31] The H4H program was established to allow distressed borrowers to refinance their mortgages into loans insured by the Federal Housing Administration.[32] As a member of the Oversight Board, the FDIC, along with the U.S. Department of the Treasury and the Department of Housing and Urban Development, sets underwriting standards and requirements for H4H program participants.[33]

(...continued)

news/news/press/2008/pr08105.html, which provides further details of the program.

[27] See http://www.fdic.gov/news/news/press/2009/pr09041.html.

[28] Monthly reports on debt issuance under the TLGP program may be found at http://www.fdic.gov/regulations/resources/tlgp/reports.html.

[29] The list of institutions requesting not to participate in the TLGP program is available at http://www.fdic.gov/regulations/resources/TLGP/optout.html.

[30] John F. Bovenzi, *Statement of John F. Bovenzi, Deputy to the Chairman and Chief Operating Officer, Federal Deposit Insurance Corporation on Promoting Bank Liquidity and Lending Through Deposit Insurance, Hope for Homeowners, and Other Enhancements before the Committee on Financial Services; U.S. House of Representatives*, February 3, 2009, http://www.fdic.gov/news/news/speeches/chairman/spfeb0309.html.

[31] P.L. 110-289, The Housing and Economic Recovery Act of 2008, Title IV, Sections 1401-1404.

[32] See CRS Report RL34623, *Housing and Economic Recovery Act of 2008*, coordinated by N. Eric Weiss.

[33] See http://www.fdic.gov/news/news/speeches/archives/2008/chairman/spsep1708.html.

When the FDIC closed IndyMac Bank, F.S.B., Pasadena, California, on July 11, 2008, an estimated 653,000 first lien mortgages were transferred to the FDIC under receivership. Approximately 60,000 mortgage loans were more than 60 days past due, in bankruptcy, or in foreclosure. The FDIC suspended most foreclosure actions for loans owned by IndyMac to evaluate how best to modify loans. On August 20, 2008, the FDIC announced a loan modification program to systematically modify troubled residential loans for borrowers with mortgages owned or serviced by IndyMac Federal. In addition, the FDIC sent letters encouraging more than 2,000 IndyMac borrowers to refinance through FHA. Afterwards, the FDIC has published the *FDIC Loan Modification Program* guide, based upon its loan modification program for IndyMac, to serve as a framework to assist bankers, servicers, and investors with this process.[34]

On February 18, 2009, the Homeowner Affordability and Stability Plan (HASP) was unveiled to help prevent foreclosures by modifying loans of borrowers unable to refinance as a result of declining home prices.[35] Financial institutions receiving assistance under HASP would be required to implement loan modification plans consistent with the loan modification guidance developed jointly by the FDIC and the Treasury. The FDIC would provide a partial guarantee, linked to declines in a home price index, to holders of mortgages modified under HASP. The partial guarantee program, funded with $10 billion, is known as the Home Price Decline Reserve Payment program. The FDIC will be jointly responsible for oversight of the HASP program with the Treasury, the Federal Reserve, and the Department of Housing and Urban Development. Quarterly meetings between these agencies are required by HASP. The plan requires overseers to provide regular reports on outcomes of HASP and its impact over mortgage market conditions.

Public-Private Investment Fund (PPIF)/Legacy Loan Program

In conjunction with the U.S. Treasury and the Federal Reserve, the FDIC is currently working to create a Public-Private Investment Fund (PPIF) to acquire real-estate related "legacy" or distressed assets.[36] The FDIC would provide oversight over the PPIF Legacy Loan program, which specifically targets the purchase of distressed whole loans off the balance sheets of depository institutions.[37] The FDIC will approve the asset pools from the participating banks and conduct the reverse auctions that will be conducted to establish prices for the pools.[38] The pools would be sold if the participating banks agree to the prices. The FDIC would also provide guarantees for the PPIF asset pools. Such guarantees would arguably enhance the liquidity of these pools and, therefore, their attractiveness to potential investors.

[34] Available at http://www.fdic.gov/consumers/loans/loanmod/FDICLoanMod.pdf.

[35] Available at http://www.treasury.gov/press/releases/tg33.htm.

[36] See http://www.fdic.gov/news/news/press/2009/pr_fsb.html and http://www.fdic.gov/llp/index.html.

[37] A separate PPIF program would be established for the purchase of legacy securities, which are held by banks, insurance companies, pension funds, mutual funds, and funds held in retirement accounts. See Treasury announcement at http://www.treasury.gov/press/releases/tg65.htm.

[38] See http://www.fdic.gov/llp/LLPfaq.pdf and CRS Report RL34707, *Auction Basics: Background for Assessing Proposed Treasury Purchases of Mortgage-Backed Securities*, by D. Andrew Austin.

Appendix. Largest FDIC Bank Closings, 2008

Table A-1. Largest Banks Closed by the FDIC in 2008

Amounts in millions of dollars, ranked by total deposits

Bank Name	Closing Date	Estimated Assets as of Closing Date	Estimated Deposits as of Closing Date	Estimated Cost to FDIC DIF as of Closing Date
Washington Mutual Bank, Henderson, NV and Washington Mutual Bank FSB, Park City, UT	September 25, 2008	$307,000	$188,000	Unspecified
IndyMac Bank, Pasadena, CA	July 11, 2008	$32,000	$19,000	$4,000 to $8,000
Downey Savings and Loan, Newport Beach, CA	November 21, 2008	$12,800	$9,700	$2,400
Franklin Bank, SSB, Houston, TX	November 7, 2008	$5,100	$3,700	$1,400 to $1,600
First National Bank of Nevada, Reno, NV	July 25, 2008	$3,400	$3,000	$862
PFF Bank and Trust, Pomona, CA	November 21, 2008	$3,700	$2,400	$2,100
Silver State Bank, Henderson, NV	September 5, 2008	$2,000	$1,700	$450 to $550
Integrity Bank, Alpharetta, GA	August 29, 2008	$1,100	$974	$250 to $350
The Columbian Bank and Trust, Topeka, KS	August 22, 2008	$752	$622	$60
The Community Bank, Loganville, GA	November 21, 2008	$681	$611	$200 to $240

Source: FDIC, http://www.fdic.gov/BANK/HISTORICAL/BANK/index.html. Estimated costs to the Deposit Insurance Fund are available in individual press releases for each bank.

Author Contact Information

Darryl E. Getter
Specialist in Financial Economics
dgetter@crs.loc.gov, 7-2834

Oscar R. Gonzales
Analyst in Economic Development Policy
ogonzales@crs.loc.gov, 7-0764