PRESS RELEASE

Federal Deposit Insurance Corporation ● Each Depositor insured to at least $250,000

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Open Letter to Bloomberg News about FDIC Deposit Insurance Fund

Mr. John McCorry
Executive Editor
Bloomberg News

Dear Mr. McCorry:

Bloomberg reporter David Evans' piece ("FDIC May Need $150 Billion Bailout as Local Bank Failures Mount," Sept. 25) does a serious disservice to your organization and your readers by painting a skewed picture of the FDIC insurance fund. Let me be clear: The insurance fund is in a strong financial position to weather a significant upsurge in bank failures. The FDIC has all the tools and resources necessary to meet our commitment to insured depositors, which we view as sacred. I do not foresee – as Mr. Evans suggests – that taxpayers may have to foot the bill for a "bailout."

Let's look at the real facts about the FDIC insurance fund. The fund's current balance is $45 billion – but that figure is not static. The fund will continue to incur the cost of protecting insured depositors as more banks may fail, but we continually bring in more premium income. We will propose raising bank premiums in the coming weeks to ensure that the fund remains strong. And, at the same time, we will propose higher premiums on higher risk activity to create economic incentives for poorly managed banks to change their risk profiles. The fund is 100 percent industry-backed. Our ability to raise premiums essentially means that the capital of the entire banking industry – that's $1.3 trillion – is available for support.

Moreover, if needed, the FDIC has longstanding lines of credit with the Treasury Department. Congress, understanding the need to ensure that working capital is available to the FDIC to provide bridge funding between the time a bank fails and when its assets are sold, provided broad authority for us to borrow from Treasury's Federal Financing Bank. If necessary, we can potentially raise very large sums of working capital, which would be paid back as the FDIC liquidates assets of failed banks. As per our authorizing statute, any money we might borrow from the Treasury must be paid back from industry assessments. Only once in the FDIC's history have we had to borrow from the Treasury – in the early 1990s – and that money was paid back with interest in less than two years.

Finally, Mr. Evans' suggestion that the "government" could ever be "on the hook for uninsured deposits" demonstrates a misunderstanding of FDIC insurance. To protect taxpayers, we are required to follow the "least cost" resolution, which means that uninsured depositors are paid in full only if this is the least costly option for the FDIC. This usually occurs when a bidder for the failed bank is willing to pay a higher price for the entire deposit franchise. We are authorized to deviate from the "least cost" resolution only where a so-called "systemic risk" exception is made. This is an extraordinary procedure which we have never invoked. And again, any money we borrow from the Treasury Department must be repaid through industry assessments.

I am confident in the strength of the FDIC's resources to make good on our sacred pledge to insured depositors. And, remember, no depositor has ever lost a penny of insured deposits, and never will.

Andrew Gray
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Federal Deposit Insurance Corporation