Deposit Insurance Reform

BACKGROUND

Deposit insurance coverage was last adjusted in 1980, and its real value has decreased over the years. The legislation proposes a much-needed increase in coverage to keep up with inflation.

LEGISLATIVE STATUS

U.S. House of Representatives

On February 12, House Financial Services Committee member Spencer Bachus (R-LA) introduced legislation (HR 3717), the Federal Deposit Insurance Reform Act of 2002.

The legislation would:

- Merge the BIF (Bank Insurance Fund) and SAIF (Savings Association Insurance Fund) funds into one fund within the FDIC called the Deposit Insurance Fund (DIF) within 90 days of the legislation's enactment
- Authorize DIF to borrow from the Federal Home Loan Bank system
- Increase the deposit insurance coverage limit for depositors to $130,000 from $100,000
- Increase to $260,000 the amount of insurance for certain retirement accounts – including IRAs, Keoghs, 401(k) plans, and other such retirement plans recognized by the Internal Revenue Code
- Index (rounded to the nearest $10,000) the amount of insurance for inflation every 10 years beginning in 2010
- Eliminate the minimum statutory rate – the cliff rate
- Require the FDIC to study its operations and further possible changes to the deposit insurance system within one year of the legislation's enactment
- Require NCUA to study the feasibility of increasing the limit on deposit insurance for deposits of municipalities and units of local government, the feasibility of establishing a voluntary deposit insurance system for deposits in excess of the standard maximum amount, and the feasibility of privatizing all deposit insurance at insured depository institutions and insured credit unions

On March 7, the Financial Services Subcommittee on Financial Institutions and Consumer Credit approved the legislation as amended. The Subcommittee amended the legislation to include language that would limit the maximum insurance amount for municipal deposits to the lesser of $5 million or 80% of the excess over the standard maximum amount. The Subcommittee also approved an amendment that would allow for partial credits against premium assessments for so called "lifeline" deposit accounts.

On April 17, the House Financial Services Committee approved the legislation 52-2. The Committee accepted several amendments to the legislation, including an amendment that would allow the FDIC and the NCUA to use the Personal Consumption Expenditure Chain-Type Index in determining inflationary indexing increases for the fund. Congress is given one year to reject the indexation of the insurance coverage.

The full House approved (408-18) the legislation as amended (HR 3717) on May 23. Unlike the legislation approved by the Committee, the full House agreed to a version that limited the insurance for municipal deposits to $2 million or 80% of the excess over the standard maximum amount.

U.S. Senate

On February 12, Senate Banking Committee member Tim Johnson (D-SD) introduced legislation (S. 1945), the Safe and Fair Deposit Insurance Act of 2002.

The legislation would:

- Merge the BIF (Bank Insurance Fund) and SAIF (Savings Association Insurance Fund) funds into one fund within the FDIC called the Deposit Insurance Fund (DIF)
- Authorize DIF to borrow from the Federal Home Loan Bank system
- Increase the deposit insurance coverage limit for depositors to $130,000 from $100,000
- Increase to $250,000 the amount of insurance for certain retirement accounts – including IRAs, Keoghs, 401(k) plans, and other such retirement plans recognized by the Internal Revenue Code
- Index (rounded to the nearest $10,000) the amount of insurance for inflation every 5 years beginning in 2005
- Set the standard maximum insurance amount, or for in-state deposits, for banks, thrifts and credit unions to the lesser of $5 million or 80% of the excess over the standard maximum amount
- Provide Pass-Through Insurance to certain employee benefit plans in well-capitalized banks and credit unions
- Require the FDIC and NCUA to study the increase in the limit on deposit insurance for deposits of municipalities and units of local government and the feasibility of establishing a voluntary deposit insurance system for deposits in excess of the standard maximum amount

The Senate Banking Committee held a hearing on the legislation on April 23. Federal regulators, including the Federal Reserve, FDIC, Comptroller of the Currency, Office of Thrift Supervision, and the Treasury Department, provided testimony focusing on the current state of the deposit insurance system, as well as the House and Senate proposals that would overhaul the system.

To read the hearing testimony, click on:
http://www.senate.gov/~banking/02_04hrg/042302/index.htm

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