Potential Impact of Deposit Insurance Reform On Agricultural Banks

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Introduction

The United States Congress is currently debating the most significant revision to the financial system since the 1930's. The potential exists for a major consolidation among banks and a blurring of lines between financial firms in general. It is also possible that nonfinancial firms will be allowed to own banks as laws separating banking and commerce are breached. One certain component of final legislation is recapitalization of deposit insurance, but significant obstacles remain for interstate banking and broadening of bank investment and product powers.

The Bank Insurance Fund (BIF) is in danger of insolvency having suffered losses at an increasing rate beginning in the early 1980s (Table 1). The 1991 bank failure rate (Table 2) is lower than expected, possibly because the Federal Deposit Insurance Corporation (FDIC) doesn't have sufficient reserves to deal with all the banks which need to be closed. The BIF recapitalization will most likely be in conjunction with major or minor revision in FDIC implementation of deposit insurance. The spate of bank failures in the 1980's and early 1990's was in part related to the structure of Federal deposit insurance and has led to the depletion of the fund after over 50 years of operation (Table 3).

Agricultural banks, currently the most healthy bank group, comprised 322 of 1,053 commercial bank failures in the decade of the 1980's. Another 23 farm banks have failed between January 1990 and July 1991. However, numbers of farm bank failures have been in decline since 1987. Therefore, while they contributed to the depletion of the BIF during the 1980's, they are not currently a major factor in the BIF's decline.

The reestablishment of farm bank health will not exempt that bank group from paying a portion of the cost of recapitalizing the fund nor allow it to escape the impact of any alteration in FDIC operation of the deposit insurance system. Since virtually all banks, agricultural and nonagricultural, are FDIC insured, any legislative or regulatory change at FDIC will impact the entire banking system. The final form of the major elements of the reform legislation is as yet unknown but the basic elements of deposit insurance to be addressed are known.

Objective

This paper will discuss the potential impact of legislative change on the capitalization and operation of BIF, definitions of and limits on insurable deposits, and the level and nature of the assessment of insurance fees on commercial and agricultural banks. This objective will be met by discussing the historical development, current condition, and pending legislation addressing each of the three features identified above. A section highlighting impacts on

agricultural banks will be presented.

Fund Facts

Historical development

The FDIC was established on January 1, 1934 as per the Banking Act of 1933 in response to the "banking holidays" of the previous year and the recurrent banking panics of previous decades. It was established primarily for reduction of systemic risk due to the possibility of "runs" by depositors. Protection of small depositors was a secondary consideration (Friedman and Schwartz, p.436).

The original plan for permanent deposit insurance in the Banking Act of 1933 called for full insurance of the first $10,000 of deposits, 75 percent insurance of the next $40,000 of deposits, and 50 percent insurance of all deposits over $50,000. This was to be capitalized by the purchase of stock in the FDIC by the U.S. Treasury, the Federal Reserve System and the insured banks. However, Senator Vandenberg of New York introduced an amendment to the Banking Act of 1933 to provide a temporary insurance system prior to passage of the permanent system slated for July 1, 1934. A second amendment passed in 1934 extended the temporary plan through July 1, 1935, and was followed by a Congressional resolution signed by the President extending it through August 31, 1935. On August 23, 1935 the present system (ie., the former temporary system) was instituted through Title I of the Banking Act of 1935. Current proposals for reform have included the suggestion of return to the original unadopted plan.

Further chronological information on the development of the insurance fund is presented in the abbreviated summary of its legislative history in Appendix A. The most recent alteration occurred in the Omnibus Budget Reconciliation Act of 1990 which established the terms of BIF borrowing and working capital acquisition which are further discussed below.

Current condition

The fund peaked in nominal dollars in 1987 at $18.3 billion and in real terms ($1982) in 1985 at $16.2 billion. The fund previously consisted of the receipts of the insurance assessments as represented in cash and securities less any operating expenses and rebates. Currently, the fund balance consists of the excess of the market value of the acquired assets of failed institutions less operating expenses including all costs associated with resolving the failed institutions. The fund has recently declined substantially.

The ratio of the insurance fund balance to total domestic deposits stood at .83 percent in 1987 while the ratio to insured deposits was 1.10 percent (Table 4). The historical peak ratio of insurance fund to insured deposits occurred in 1941 at 1.96 percent while the peak in the post-1980 era was 1.24 percent in 1981. By December 1990, the ratio of the fund to total domestic deposits stood at .36 percent and the ratio to total insured deposits at .43

percent in nominal dollars. If foreign deposits (which have been protected in practice but not assessed nor explicitly insured) are included, the ratio of the insurance fund to total deposits stood at 0.31 percent at yearend 1990. (The difference between total, domestic, foreign, and insured deposits is explained below.)

While the number of weak banks has declined (Table 5), the remaining troubled banks are larger and more of a threat to the BIF. Current commercial real estate loan troubles highlight this focus on large banks (Table 6), which as a group had over 6 percent of their real estate loans nonperforming. Projections about the timing of the insurance fund's insolvency differ but most agree that it will occur no later than yearend 1991 barring recapitalization. Some estimate that it is already insolvent and only FDIC forbearance is preventing public revelation of that fact (Litan and Brumbaugh; Kane). The FDIC itself currently projects a fund balance of $2.6 billion at yearend 1991, a deficit of $9.6 billion at yearend 1992 and a deficit of $18.3 billion at yearend 1993 (Seidman). The pessimistic scenario estimated by FDIC shows a 1992 yearend deficit of $14.1 billion, increasing to $28.9 billion by 1993.

A related concern is the availability of working capital for use in the closure process. The FDIC requires funds to affect resolution of a failed bank regardless of the method used (see Appendix B for a description of FDIC bank closure methods). Under the most common failure resolution approach, these funds are then recaptured through marketing of assets of the failed bank and at the end of that process, any deficit is charged to the insurance fund.

Current law specifies the limits on FDIC ability to acquire working capital. The FDIC can leverage it's equity at a 9 to 1 ratio, but a debt cap requires BIF to maintain net worth no less than 10 percent of it's assets. At yearend 1990, BIF had $16.4 billion in assets and $8 billion in liabilities leaving $8.4 billion of net worth. (The General Accounting Office contends this is high by $4.4 billion and that the fund will be substantially in deficit by yearend 1991). The 9 to 1 leverage ratio would allow $75.6 billion in working capital sans debt cap. The debt cap is (10 * $8.4 billion - $16.4 billion =) $67.6 billion. Obviously, zero net worth implies zero working capital, however there is a $5 billion borrowing authority at Treasury if the fund is insolvent. Zero capital implies no closures, precisely the situation which mushroomed S&L failure resolution costs so dramatically.

Given that most forecasts of the size of the BIF are for insolvency at yearend 1991, if not sooner, the Congress and the Administration are in agreement as to the necessity of its recapitalization. It is the particular plan for its recapitalization which is in contention, and whether the plan can or should be separated from a larger banking reform effort.

Legislation proposed

Three considerations, in addition to the structure of deposit insurance premiums, which have been discussed in bank insurance reform debates are 1) State permitted activities which may

increase potential Federal insurance losses but are nonetheless regulated at the State level, 2) use of the Federal Reserve discount window to provide liquidity to troubled institutions resulting in increased failure resolution costs, and 3) potential Federal underwriting of insurance for nonfinancial activities through allowing nonfinancial firms to own banks. (The third of these should not be confused with the later discussion of what constitutes an insurable deposit.) The first and third considerations are dealt with through portions of legislation not directly incorporating deposit insurance or the BIF and thus will not be discussed in this paper. The second, however, will be discussed in conjunction with the terms of the House proposal for bank reform.

The Administration proposes that the FDIC be authorized to borrow up to $25 billion from the Federal Reserve to cover losses (H.R.1505). For working capital, the FDIC would be allowed to treat their current $5 billion borrowing authority at Treasury as equity and leverage it up to $45 billion. All borrowing would be repaid through insurance premiums. The Federal Reserve is resistant to this approach, viewing it as a possible invitation to additional future borrowing requests.

The bill passed by the Senate Banking Committee (S.543) increases the current line of credit at Treasury from $5 billion to $30 billion with no borrowing from the Federal Reserve to cover losses. Working capital would be acquired by borrowing from the Federal Financing Bank the lesser of $45 billion or the sum of BIF's cash balance plus 85 percent of the market value of its assets. The FDIC would have to submit a plan to rebuild the BIF to the 1.25 percent "designated reserve ratio" within 10 to 15 years. The "designated reserve ratio" is discussed further below. The first $10 billion would be repaid through a special asset-based assessment, with the rest coming from regular insurance fees.

H.R.6, the House Banking Committee bill, has the same loss coverage provisions as the Senate bill. Working capital equal to 90 percent of the market value of FDIC's assets can be borrowed from the Federal Financing Bank. BIF may issue notes and sell them to insured banks, which may count them as capital. Repayment would be through insurance fees as currently construed.

A further interesting provision of the House bill is the requirement that discount window lending to troubled banks for over 60 days may release the FDIC from funding subsequent losses. Under H.R.6, a troubled bank must be evaluated by its primary regulator for its likelihood of recovery if discount window assistance is given. If it is certified as likely to survive, discount window assistance continues past 60 days, and it subsequently fails, the FDIC pays off. If, however, it is not certified as likely to survive and the same scenario ensues, Treasury will be responsible for resulting losses. This became an issue when a House Banking Committee study reported that FDIC losses had been significantly increased by discount window lending to banks which subsequently failed (U.S.Congress, 11 June, 1991).

Legislation regarding the optimum size for the insurance fund after the recapitalization is

accomplished refers to the "designated reserve ratio." This is the target ratio of fund reserves to insured deposits and was established by Congress in 1980. This was last altered in 1990 through the elimination of the ceiling on the ratio. The designated reserve ratio ceiling had been 1.40 percent of insured deposits with a lower bound of 1.25 percent. If the actual reserves fall below 1.1 percent of insured deposits in the short run the FDIC can institute special assessments to bring it back to 1.25 percent.

What's Being Insured ?

Historical development

Deposit insurance coverage was limited to $2,500 per account for the first six months of its existence beginning January 1, 1934. It rose to $5000 on July 1, 1934 and has since risen to its current level of $100,000 per account. Figure 1 shows the nominal and real changes in the per account coverage of bank deposits. The chronology of the changes is documented in Appendix A.

Merely looking at the maximum coverage per account can be misleading as not all deposits are insured or insurable. However, the definition of an insurable deposit is quite expansive. The term deposit is defined in the Federal Deposit Insurance (FDI) Act of 1950 (see Appendix C). The same Act (as amended) defines the term "insured deposit" as "the net amount due to any depositor...for deposits in an insured depository institution...less any part thereof which is in excess of $100,000." (12 U.S.C. 1813(m)(1))

The law defines "legal rights and capacities" as units of ownership of deposits to which the insurance applies. The following summary of these entities was included in Modernizing The Financial System, the document supporting the Administration's bank reform proposal:

> ...individual ownership, such as a simple checking account;
> ...joint ownership, such as the saving account of a husband and wife;
> ...revocable trusts, in which the beneficiary is a qualified relative of the settlor, and the settlor has the ability to alter or eliminate the trust;
> ...irrevocable trusts, where the beneficial interest is not subject to being altered or eliminated;
> ...interests in employee benefit plans where the interests are vested and thus not subject to being altered or eliminated;
> ...public units, that is, accounts of federal, state, and municipal governments;
> ...corporations and partnerships;
> ...unincorporated businesses and associations;
> ...individual retirement accounts (IRA's);
> ...Keogh accounts;
> ...executor or administrator accounts; and
> ...accounts held by banks in an agency or fiduciary capacity.

FDIC regulatory language clarifying details of insurability under the FDI Act were not adopted until 1967. Prior to that time the basis for determining rights and capacities was informal FDIC staff interpretations. An extensive revision of the 1967 FDIC regulations was put into place May 15, 1990.

Current conditions

Note that the above definitions allow multiple accounts to be covered within one bank, and that the coverage can also be acquired in multiple banks. Thus an enterprising depositor should be able to insure all deposits. An example of the use of multiple deposits is displayed below based upon a figure in an Independent Bankers Association of America Newsletter. The potential coverage for a family of four is presented in detail, although not all possibilities are exhausted. Further, this example is for accounts at only one bank.

Example of insurable deposit accounts for a family of four.

Individual accounts	Amount
Husband	$100,000
Wife	$100,000
Child # 1	$100,000
Child # 2	$100,000
Joint Tenency Accounts	
Husband and wife	$100,000
Husband and child # 1	$100,000
Wife and child # 2	$100,000
Child #1 and child # 2	$100,000
Testamentary Revocable Trust Accounts	
Husband - wife	$100,000
Wife - husband	$100,000
Husband - child # 1	$100,000
Husband - child # 2	$100,000
Wife - child # 1	$100,000
Wife - child # 2	$100,000
Total Insured In This Bank	$1,400,000

A second important point is that insured deposits do not include deposits in foreign branches of domestic banks. Thus, insured deposits represent substantially less than 100 percent of deposits in the commercial banking system (Table 7). This, of course, refers to explicit

insurance. However, with "too big to fail," effective insurance coverage is much more extensive.

Two additional types of insured deposits which deserve specific mention are those which receive pass-through insurance and brokered deposits. Pass-through insurance refers to the insurance of deposits which are placed in the depository institution by an entity which is not the owner or beneficiary of the deposit. An example would be a retirement fund. Funds may be deposited by a fund manager but are owned by the beneficiary. In this case the entire fund may substantially exceed $100,000 but each beneficiary would be insured up to the $100,000 level. In order to qualify, it must be clear that the assets of the fund are owned by the beneficiary or the entire fund is subject to a single $100,000 limit. It must also be the case that circumstances of payment from the fund to the beneficiary will occur at a specific point. This disqualifies funds where payouts are subject to such contingencies as the achievement of a particular license or college degree which may never occur.

A subset of funds receiving pass-through insurance and which have generated some discussion concerning the appropriateness of their being insured are Bank Insurance Contracts (BICs). These funds are an agreement by the bank to pay the depositor a guaranteed rate of interest for making the deposit at a particular time for a specific duration subject to no penalty. These plans may allow the beneficiary to withdraw the funds under some conditions. This could subject the bank to interest rate risk wherein the depositor can withdraw funds when rates exceed the contractual guarantee but leave the funds in place when the contractual rate exceeds market rates.

A final type of insured deposit which has attracted some attention is the brokered deposit. In this case a third party pools deposits, divides them into units of $100,000 or less, and deposits them in institutions where they are fully insured. In this way large depositors can take advantage of the breadth of the deposit insurance definition and banks can bid for large deposit balances to meet funding needs. Concern regarding the insuring of these deposits arose when it was observed that some failed institutions had large quantities of these funds among their deposit liabilities. Further, these deposits appeared to be highly interest sensitive so that riskier banks could attract them by paying higher rates. The Financial Institutions Reforms, Recovery, and Enforcement Act of 1989 (FIRREA) amended the FDI Act to restrict the purchase of insured brokered deposits to banks meeting stringent capital requirements.

Table 8 displays an aggregate breakdown of the deposit types held within the U.S. commercial banking system. These deposits come from sources including households and business. Most data on the size distribution of deposits of households is based upon the 1983 Survey of Consumer Finances (Greenspan). The survey was repeated in 1989 although results aren't yet available. The 1983 data, although dated, indicated that 91 percent of household deposits were insured with the ceiling at $100,000 and 71 percent were still fully insured with the ceiling lowered to $25,000. At the same time, households held only 37 percent of total deposits. A 1988 Survey of Small Business Finances indicated that only 60

percent of small business deposits were insured at the $100,00 ceiling and only 32 percent at a ceiling of $25,000. Small business deposits, however, comprised only 3.5 percent of total deposits.

Legislation proposed

The administration proposed a number of changes in the operation of deposit insurance. While the $100,000 ceiling was left intact, the amount of insurable deposits per institution per individual was limited to $100,000 in a savings or checking account plus $100,000 in a pass-through or retirement account. The pass-through account was not to include BICs however. Thus, an individual could have at most $200,000 insured in a particular bank. The same individual could still hold this same amount in multiple banks though. Therefore, it would still be possible to insure all deposits but with increased transactions costs. The Administration also proposed making brokered deposits uninsurable and left foreign deposits uninsured.

The House proposed leaving the individual account limits as currently constituted except to eliminate insurance of some BICs. Brokered deposits would carry insurance only at institutions which met specific capital requirements. The FDIC was specifically prohibited from paying off foreign deposits (ie., those in branches located outside the U.S.) of failed banks in the House proposal.

The Senate proposal was very similar to that of the House. It differed meaningfully only in the treatment of insurance of foreign deposits. If the FDIC were to pay off depositors in foreign branches of U.S. banks, it would have to retroactively assess all banks holding foreign deposits to recover its outlay. This would be a special assessment and not an annual premium however.

Who Pays What Insurance Fees ?

Historical development

The base and rate of assessment for deposit insurance have changed several times since its inception. The Banking Act of 1933 set the base as all insured deposits and the rate at one-half of one percent (foreign deposits were not included in insured deposits from the outset). Authority was granted for special assessments. One-half of the assessment was paid upon admission with the remainder subject to call. The second half was not only never called but when the system was altered in 1935, a portion of the previous assessment was rebated.

The Banking Act of 1935 changed the assessment base to total domestic deposits and set the rate at one-twelfth of one percent. The justification for the rate chosen was essentially that the regulators thought that was all banks could afford (Crowley). Also incorporated in the calculation of the assessment base in the 1935 Act was a deduction for items in the process of collection (float). Special assessment rights were canceled and emergency borrowing

privileges of $975 million from the Treasury were granted. The borrowing privilege was subsequently increased to $3 billion in 1947 and to $5 billion in 1989.

The FDI Act of 1950 established a rebate system requiring that 60 percent of net assessment income be rebated to insured banks. The rebate continued through 1983, being granted as an "assessment credit" against the succeeding year's premium (Table 9). The rebate was increased to two-thirds of net assessment income in 1960 before being returned to 60 percent in 1980. The 1980 adjustment was accompanied by the establishment of a "designated reserve ratio" for the fund. The granting of a rebate became subject to the ratio of the insurance fund balance to insured deposits falling within the designated range. The ratio's range was from 1.25 to 1.40 percent of insured deposits. The maximum designated reserve ratio was increased to 1.50 of insured deposits in 1989. The specific designated reserve ratio ceiling was eliminated in 1990 and left to the discretion of the regulators.

Authority to raise the assessment rate to .15 percent of domestic deposits was granted in FIRREA in 1989. This was subsequently altered to allow semiannual adjustments by FDIC to the assessment rate. The rate stood at .083 percent of total domestic deposits as of December 31, 1989. On January 1, 1990 it increased to .12 percent, on January 1, 1991 it increased to .195 percent, and on July 1, 1991 it increased to .23 percent of total domestic deposits. This represented a 177 percent increase in the assessment rate over an 18 month period. The ceiling on the assessment rate was eliminated altogether in 1990.

The deduction of float in the calculation of the assessment base has continued to the present. In 1961 fixed percentage deductions were authorized for float. Specifically, a bank can choose between deducting 16 2/3 percent of demand deposits plus 1 percent of savings and time deposits or actual float from total domestic deposits in determining the assessment base, whichever is the greater deduction.

As noted above, foreign deposits are neither insured nor assessed through the FDIC. This refers not to deposits of foreign entities in domestic U.S. banks but rather to deposits in foreign branches of U.S. banks, Edge Act and Agreement Corporations, and International Banking Facilities. Thus it was that depositors in the Hong Kong branches of Citicorp initiated a "bank run" recently while domestic Citicorp depositors yawned when a prominent legislator called the bank "technically insolvent" (USA Today).

Current conditions

A number of changes took place in the 1980s which are having an impact on the current banking environment and which involve both insurance fees and the assessment base. First, the revolution in financial market structure involving financial innovation, deregulation in response to disintermediation, and technological advancement greatly increased competition for banks. The increased competition decreased returns to banks and brought to bear the moral hazard inherent in a deposit insurance system, the fee structure of which was unrelated

to the bank's propensity to take risks. In order to increase profitability, banks made riskier loans while their deposit insurance franchise protected them from the monitoring of their activities by their depositors. Ultimately, the increase in competition in combination with greater risktaking in lending spawned bank failures. Regulation and supervision was also inadequate at this time. Better regulatory oversight could have provided some compensation for the lack of depositor monitoring.

Among the first things to happen was the suspension of assessment credits. The last credit was made in 1983, a year in which 44 banks failed and the second consecutive year in which FDIC losses had exceeded $1 billion. This was also the second highest year, in the 1980s, for the ratio of the insurance fund to insured deposits (1.22 percent). Elimination of the credit was, in effect, an increase in the premium.

Prior to and continuing throughout the 1980s, large banks had attracted and held significant quantities of foreign deposits. This was important to the FDIC fund as those deposits are not included in the assessment base. It was important only because the FDIC implicitly insured them without passing the cost on to domestic insured deposits. As of 1990, approximately 12 percent of total deposits in the U.S. banking system were foreign and thus nonassessable.

At the same time, a shift in the composition of bank liabilities was occurring. More bank liabilities were from nondeposit sources such as federal funds purchased and repurchase agreements sold, items also not in the deposit insurance assessment base. These trends were more pronounced as bank size increased, thus increasing the proportion of the FDIC insurance fund provided by smaller banks. Table 10 vividly illustrates the size distribution of insured versus uninsured deposits.

As 1990 dawned, it was apparent that the BIF was in serious decline. Fees were sequentially raised with the effect on bank costs for deposit insurance shown in Table 11. This increase in fees has necessarily hampered bank profitability, restricting capital growth and therefore impacting loan growth. At present there is no cap on the level of fee which the FDIC can assess and a debate is continuing over whether additional increases are called for or not.

Legislation proposed

No provision in any of the three legislative proposals deals specifically with the assessment credits. However, the credit cannot resume until the BIF is again within the "designated reserve ratio" range according to previous legislation. Only the House legislation addresses the required reserve ratio and even then sets only a minimum of 1.25 percent to be met not later than 15 years after enactment. Regarding the level of fee to be assessed in rebuilding the BIF, the Administration proposal caps it at .30 percent of total domestic deposits. Neither the House or Senate establishes a premium cap, thus leaving its level to the discretion of the FDIC subject to current law.

The assessment base will remain largely the same as at present under all proposals. Foreign deposit treatment remains the same under the Administration plan while the Senate proposes that in any instance where foreign depositors are paid off in a failure, all banks holding foreign deposits will be retroactively assessed the amount of the FDIC cost of paying off the foreign depositors. The House proposal prohibits all assessments and insurance of foreign deposits.

The administration eliminates insurance coverage for most BICs and pension funds not self directed as well as brokered deposits, but these remain in the assessment base. The Senate plan largely agrees with the administration on the elimination of insurance of passthrough accounts but retains coverage of brokered deposits thus keeping them in the base. The House retains pass-through coverage for all pension plans and they are in the base, but BICs are neither assessed nor insured. Brokered deposits are neither assessed nor insured under the House plan.

All three plans direct the FDIC to establish risk-based deposit insurance premiums but only the Administration sets a limit on the level of that premium (systemwide average .30 percent of total domestic deposits). Such a premium would likely be structured along the lines of the risk-based capital requirements and include a component for interest rate risk, but the FDIC will design it.

Impacts on Agricultural Banks

Agricultural banks (i.e., those commercial banks with greater than the unweighted national average agricultural loan to total loan ratio as of a particular date) are already being impacted by changes in deposit insurance. Currently the major impact is that of the increased deposit insurance premiums. This is occurring at a time when the health of these generally small banks is at its best in over a decade. The numbers of farm bank failures (see Table 2) and weak banks (see Table 5) are at their lowest levels since 1983, and farm bank rate of return on equity (ROE) at mid-1991 was over 11 percent annualized. This was a full point above the ROE for small nonag banks, a frequent comparison group. It was also significantly greater than ROE for large banks, which stood at slightly under 8.3 percent.

The differences between the respective balance sheets of large banks and farm banks are striking when the market shares in certain categories are compared (Table 12). Two important differences affecting deposit insurance are that ag banks hold no foreign deposits and that they hold nearly twice the equity in relation to their assets than do large banks. Both of these facts point to the lower risk to the BIF from the smaller agricultural banks.

A comparison of average balance sheets for farm banks and large banks shows that almost all of the liabilities of the average farm bank are assessable domestic deposits while slightly less than half of the liabilities of large banks are assessable for insurance purposes. The largest banks have employed an increasing proportion of nondeposit purchased funds to support their

lending activities. This in itself would not be an issue if, when any bank failed, only those deposits which were insured were paid off. However, the policy regarding coverage of uninsured deposits has explicitly been to cover all deposits in the event of a large bank failure but not always to do so for small banks. This has been labelled the "too big to fail" policy.

When Continental Illinois Bank failed in 1984, then FDIC Chairman Isaac stated that henceforth some banks would be considered "too big to fail" because of the risk (called "systemic risk") that their failure might pose to the entire financial system if bank runs developed as frightened depositors removed funds from other banks. At the time of its failure, Continental Illinois held $33 billion of liabilities of which only $3 billion were insured. Since that time a number of large banks have failed but the largest bank to fail and have a depositor suffer a loss was Capital Bank and Trust of Boston. At the time of its failure it held $438 million of deposits of which $25 million were uninsured.

This dichotomy of treatment for failed banks according to size has led to three charges by small banks, in addition to the inequality on the face of it. First, they point out that any attempt to restrict the amount of insured deposits which a single depositor is entitled to would likely cause an outflow of funds from the small banks, where the limits are enforced, to the large banks where all deposits are, in effect, 100 percent insured. Evidence from June 30, 1990 data (Milkove) show that the average rural headquartered bank held 16 percent of its deposits in accounts exceeding the current insurance limit. Total such deposits were $63 billion, averaging $197 thousand per account. Again, there is anecdotal evidence that large depositors are more wary of the potential treatment of uninsured deposits in small banks (The Wall Street Journal).

Second, it is charged that large banks will pay a lower rate to acquire deposits as depositors will view them to be 100 percent insured, thus granting the large banks an interest rate (and therefore, cost) advantage. This makes sense if one believes that the bank must compensate the depositor for the risk of nonrepayment of the deposit. Since the Federal Government would reimburse depositors in the event of a large bank failure, depositors wouldn't require such a risk premium.

Third, the FDIC is effectively insuring all liabilities of large banks while only assessing their domestic deposits. Small banks point out that this effectively shifts the burden of deposit insurance to the smaller banks which carry few liabilities outside of domestic deposits. Table 14 illustrates the effects of changing the composition of the assessment base for deposit insurance from total domestic deposits to total deposits, then to total liabilities, and finally to total assets. The analysis uses June 30, 1990 data and applies the current assessment rate of .23 percent to the other bases for large and agricultural banks. Clearly, if the assessment base was redefined to include liabilities other than simply domestic deposits the agricultural banks would be relatively better off. In other words, a greater share of deposit insurance funds would be paid in by large banks.

The current assessment rate of .23 percent of total domestic deposits represents an increase of 177 percent over the rate just 18 months earlier. Table 15 notes the dates and levels of the increases in the premium. The table also shows results of an analysis of the potential impact of the rate increases on lending by the average agricultural bank. This is a rough approximation and assumes that the fee increase comes directly from retained earnings which would have supported lending in the proportion that the bank currently has in its portfolio. The bank could alternatively have absorbed the change entirely through the securities portfolio or entirely by the loan portfolio. This analysis also assumes that the bank must absorb the reduction in earnings as opposed to being able to pass it on to customers. It is demonstrated that the average agricultural bank will lend approximately $280 thousand less with the current premium level than at the level of December 31, 1989.

The most likely scenario is for banks to attempt to pass at least some portion of the increase in deposit insurance costs on to borrowers through higher interest rates or loan fees, or to pass it on to depositors through reduced interest paid on deposits and higher fees assessed on deposit accounts. A rough analysis of the potential increase in loan rates necessary to recover the increased cost shows that an increase of 27 basis points would be required (see Appendix D). Conversely, if depositors were to be assessed there would be a reduction of interest paid of 14.7 basis points (see Appendix E). There is some evidence which indicates that banks are attempting to pass the increased insurance costs on to depositors. This is taking the form of reductions in interest paid and increased account fees and is tailored according to the bank's assessment of its likelihood of suffering deposit disintermediation.

Finally, if legislation creates an insurance system based on risk based premiums, the farm banks may actually benefit relative to the current system. Discussion of such a system has centered upon the current risk based capital requirements as a model. Farm banks are highly capitalized relative to other banks and this should result in lower premiums. This will especially be true if equity capital is considered as preferred over other capital items. On the other hand, if portfolio concentration is penalized as riskier, the farm banks may not see their position improved.

Summary

Proposals to reform the commercial banking industry will certainly include addressing the problems of deposit insurance but prospects for additional changes are far less likely. The deposit insurance system has several attributes which need to be kept in mind when evaluating its operation including the definition of an insurable deposit, the maximum size of an insurable deposit, the number of insurable deposits an entity may own, the base of deposits against which premiums can be assessed, the level of the assessment premium, and the relationship of the insured bank's riskiness to its insurance expense. All of these attributes have seen change over the years either regulatorily or legislatively. However, the BIF has never been in its current financial condition since its inception. Therefore, the potential for significant change seems high although legislative inertia may forestall even these changes.

The problems of the FDIC are already affecting the performance of commercial banks as insurance premiums have increased 177 percent from December 31, 1989 to July 1, 1991. The increase in premiums by definition increases the operating costs of banks, which either pass these costs along to borrowers or depositors, or face reduced earnings. Pending the final version of any legislation dealing with the BIF, discussion of increasing the insurance premiums above their current historically high levels will only add to these increased costs. Failure to link the premiums to the riskiness of the individual insured bank will work against the agricultural banks which are highly capitalized on average and thus represent a lower risk to the BIF.

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APPENDIX A

Federal Deposit Insurance Corporation Legislative History

Banking Act of 1933 (enacted June 16, 1933): Premium set at 1/2 of 1 percent of total insured deposits. One-half of total assessment paid upon admission to the fund, the remainder subject to call. Authority granted to impose special assessments, if necessary. Basic insurance coverage set at $2,500 per depositor per insured institution. Effective July 1, 1934, insurance coverage was increased to $5,000 except for mutual savings banks, which could remain at a coverage of $2,500.

Banking Act of 1935 (enacted August 23, 1935): Premium assessment base changed to total domestic deposits and premium reduced to 1/12 of 1 percent per annum. Maximum emergency borrowing from the Treasury are $975 million, and emergency assessment rights are eliminated.

Amendment to Banking Act of 1935 (enacted August 5, 1947): Line of credit at the Treasury increased to $3 billion.

Federal Deposit Insurance Act (enacted September 21, 1950): Premium rebates set at 60 percent of net assessment income. Basic insurance coverage raised to $10,000 per account.

Amendment to the Federal Deposit Insurance Act (enacted July 4, 1960): Rebates increased to 66.66 percent of net assessment income.

Financial Institutions Supervisory Act of 1966 (enacted October 16, 1966): Basic insurance coverage raised to $15,000 per account.

Credit Control Act (enacted December 23, 1969): Basic insurance coverage raised to $20,000 per account.

Amendment to Federal Deposit Insurance Act (enacted October 28, 1974): Basic Insurance coverage raised to $40,000 per account. Insurance limit for time and savings accounts held by state and political subdivisions increased to $100,000.

Financial Institutions Regulatory and Interest Rate Control Act of 1978 (enacted November 10, 1978): Insurance limit for Individual Retirement Accounts (IRA) and Keough accounts raised to $100,000.

Depository Institutions Deregulation and Monetary Control Act of 1980 (enacted March 31, 1980): Basic insurance coverage raised to $100,000 per account. Rebates decreased to 60 percent of net assessment income. Established "designated reserve ratio" range between 1.25 and 1.40 percent of insured deposits.

International Banking Facility Deposit Insurance Act (enacted December 26, 1981): Exempted International Banking Facilities from deposit insurance assessments and coverage, interest rate restrictions , and reserve requirements.

Garn-St Germain Depository Institutions Act of 1982 (enacted October 15, 1982): Expanded FDIC authority to assist failed institutions.

Competitive Equality Banking Act (enacted August 10, 1987): Establishes a deferred loan loss program for small banks specializing in farm loans.

Financial Institutions Reforms, Recovery, and Enforcement Act of 1989 (enacted August 9, 1989): FSLIC abolished, replaced with Savings Association Insurance Fund (SAIF) administered by FDIC. FDIC to administer original fund now called Bank Insurance Fund (BIF). Premiums increased to 12/100 of 1 percent in 1990, 15/100 of 1 percent after 1990. In 1998, both BIF and SAIF are to have same premium. Authorized increase in "designated reserve ratio" to 1.50 percent of insured deposits. Restricts use of brokered deposits to institutions meeting specific capital standards. Authority to borrow from Treasury raised to $5 billion.

FDIC Assessment Rate Act of 1990 (enacted October 1990): Eliminated ceiling an assessment rate, allowed for midyear adjustment to rate. Eliminated ceiling on "designated reserve ratio".

Omnibus Budget Reconciliation Act of 1990 (enacted 1990): Authorized FDIC to borrow working capital from Federal Financing Bank. FDIC can leverage equity at 9:1 ratio but capped at 10% equity to asset ratio. Premium ceiling lifted.

Source: Congressional Budget Office adapted from James R. Barth, Michael G. Bradley, and John J. Feid, "The Federal Deposit Insurance System: Origins and Omissions," Research Report No. 153 (Office of Policy and Economics Research, Federal Home Loan Bank Board, January 1989). Also, Annual Report of the Federal Deposit Insurance Corporation, various issues.

APPENDIX B

FDIC Bank Failure Resolution Methods

There are 4 methods employed by the FDIC in resolving bank failures. These are "deposit payoff", "insured-deposit transfer," "purchase-and-assumption (P&A)", and "open-bank assistance". A summary of each procedure follows.

Deposit payoff: The FDIC is appointed receiver, pays off all insured depositors to the full insured amount, and liquidates the bank's assets. Uninsured depositors and general creditors either receive receivership certificates or a "modified payoff". The receivership certificate entitles them to a proportionate share of the proceeds of the asset sale. The modified payoff is payment of an estimate of their share of the proceeds. In 24 states, depositor preference laws place the claims of uninsured depositors ahead of the FDIC and other general creditors.

Insured Deposit Transfers: The FDIC is appointed receiver, transfers insured deposits plus secured and preferred liabilities less any premium paid to an acquiring bank. An equal amount of cash from the FDIC is also transferred. Assets are then liquidated and uninsured depositors and creditors are paid off proportionately.

Purchase and Assumption: An acquiring bank "purchases" some or all of the failed bank's assets and "assumes" its deposit liabilities and some nondeposit liabilities. Potential acquirers bid based on the expected value of the failed bank's portfolio. Uninsured depositors and creditors are often fully paid off under this method. It is the method used for "too big to fail" banks.

Open Bank Assistance: In this case the bank doesn't technically fail but the FDIC injects cash, replaces management, and imposes losses on stockholders and subordinated debtholders. In effect, it is a recapitalization.

The following table illustrates frequency of use of the alternatives since 1980.

Failure resolutions by method, 1980-1991[1].

Year	Purchase[2] and assumption	Insured deposit transfer	Payoff	Open bank assistance	Total[3]
1980	7	0	3	1	11
1981	8	0	2	3	13
1982	35	0	7	8	50
1983	36	0	9	3	48
1984	62	12	4	2	80
1985	87	7	22	4	120
1986	98	19	21	7	145
1987	114(19)	40	11	19	203
1988	54(110)	30[4]	6	21	221
1989	88(87)	22	9	1	207
1990	106(43)	12	7	0	169
1991	38(15)	9	1	0	63

[1] 1991 figures through July 1.

[2] Includes subcategory of "small-loan" P&A's which began in March 1988 and type of P&A which began April 1987 called "whole bank" (number in parenthesis).

[3] Includes failed savings banks insured by FDIC.

[4] Includes 2 "whole-bank" insured deposit transfers.

Source: FDIC Banking Review, Fall 1990, pp.1-11. Also, various FDIC press releases.

APPENDIX C

Definition of Deposits

Total deposits as defined by the Federal Deposit Insurance Act are:

(1) Unpaid balance of money or its equivalent received or held by a bank in the usual course of business and for which it has given or is obligated to give credit, either conditionally or unconditionally, to a commercial, checking, savings, time, or thrift account, or which is evidenced by its certificate of deposit, or a check or draft drawn against a deposit account and certified by the bank, or a letter of credit or a traveler's check on which the bank is primarily liable: provided that without limiting the generality of "money or its equivalent," any such account or instrument must be regarded as evidencing receipt of the equivalent of money when credited or issued in exchange for checks, drafts, or a promissory note upon which the person obtaining any such credit or instrument is primarily or secondarily liable, or for a charge against a deposit account, or in settlement of checks, drafts, or other instruments forwarded to such bank for collections;

(2) Trust funds as defined in this Act received or held by such bank, whether held in trust department or held or deposited in any other department of such bank;

(3) Money received or held by a bank, or credit given for money or its equivalent received or held by a bank, in the usual course of business for a special or specific purpose, regardless of legal relationship thereby established, including without being limited to, escrow funds, funds held as security for an obligation due to the bank or others (including funds held as dealers reserves) or for securities loaned by the bank, funds deposited by a debt to meet maturing obligations, funds deposited as advance payment on subscriptions to U.S. Government securities, funds held for distribution or purchase of securities, funds held to meet its acceptances or letters of credit, and withheld taxes: provided, that there shall not be included funds which are received by the bank for immediate application to reduction of an indebtedness to the receiving bank, or under condition that receipt thereof immediately reduces or extinguishes such an indebtedness;

(4) Outstanding draft (including advice or authorization to charge bank's balance in another bank), cashier's check, money order, or other check issued in usual course of business for any purpose, including without being limited to those issued in payment for services, dividends, or purchase; and

(5) Such other obligations of a bank as the Board of Directors, after consultation with Comptroller of the Currency and Board of Governors of the Federal Reserve System shall find and prescribe by regulation to be deposit liabilities by general usage; provided, further that any obligation of a bank which is payable only at an office of the bank located outside of the U.S., District of Columbia, Puerto Rico, Guam, American Samoa, the Trust Territory of the Pacific Islands, the Virgin Islands, and any International Banking Facility

deposit, including an International Banking Facility time deposit, as such term is from time to time defined by the Board of Governors of the Federal Reserve System in Regulation D or any successor regulation issued by the Board of Governors of the Federal Reserve System shall not be a deposit for and of the purposes of this Act or be included as part of total deposits or of an insured deposit.

Exceptions to the above Act are:

(1) Reciprocal bank deposits are netted;
(2) Deposits received in any office of the bank for deposit in another office of the bank may be excluded;
(3) Outstanding drafts (including advises or authorizations to charge the bank's balance in another bank) drawn in the regular course of business by the reporting bank on other banks may be excluded;
(4) Trust funds held in the bank's own trust department, which the bank keeps segregated and apart from its general assets and does not use in the conduct of its business, are excluded.

Source: Micro Data Reference Manual, Board of Governors of the Federal Reserve System

APPENDIX D.

Loan Rate Increase Due to Deposit Insurance Fee Increase

For the average agricultural bank (using December 31, 1990 data), the increase in deposit insurance fees from .083 per hundred dollars (December 31, 1989) to .23 per hundred dollars (July 1, 1991) meant an increase of $51,940 in insurance premiums.

.0023 * $35,333,656 = $81,267
.00083 * $35,333,656 = $29,327

$81,267 - $29,327 = $51,940

where: average domestic deposits = $35,333,656

If it is assumed that the entire increase can be passed on to the borrowers through higher loan interest rates with no change in quantity demanded, the calculation of the necessary interest rate increase is carried out as follows:

gross interest rate prior to fee increase = interest and fee income on loans / total loans

= 2,095,069 / 19,373,388

= 10.81%

gross interest rate after fee increase = interest and fee income on loans + increase in insurance premiums / total loans

= 2,095,069 + 51,940 / 19,373,388

= 11.08%

The resulting required increase in loan rates = 11.08 - 10.81 = 0.27 %

This is only a rough approximation. The deposit figure is not netted of float thus making the premium increase estimate slightly high. Also, some loans which are on the books at the beginning of the year mature during the year and some loans are made during the year for maturity of less than one year thus not showing up in the yearend balance. There are also no adjustments for tax effects or changes in revenues or other costs.

APPENDIX E.

Deposit Rate Decrease Due To Deposit Insurance Fee Increase

For the average agricultural bank (using December 31, 1990 data), the increase in deposit insurance fees from .083 per hundred dollars (December 31, 1989) to .23 per hundred dollars (July 1, 1991) meant an increase of $51,940 in insurance premiums.

$$.0023 * \$35,333,656 = \$81,267$$
$$.00083 * \$35,333,656 = \$29,327$$

$$\$81,267 - \$29,327 = \$51,940$$

where: average domestic deposits = $35,333,656

If it is assumed that the entire increase can be passed on to the depositors through lower deposit interest rates with no change in quantity supplied, the calculation of the necessary interest rate decrease is carried out as follows:

$$\text{gross interest rate prior to fee increase} = \frac{\text{interest and fee expense on deposits}}{\text{total deposits}}$$

$$= \frac{2,064,218}{35,333,656}$$

$$= 5.842\ \%$$

$$\text{gross interest rate after fee increase} = \frac{(\text{interest and fee expense on deposits}) - \text{increase in insurance premiums}}{\text{total deposits}}$$

$$= \frac{2,064,218 - 51,940}{35,333,656}$$

$$= 5.695\ \%$$

The resulting required decrease in deposit rates = 5.842 - 5.695 = 0.147 %

This is only a rough approximation. The deposit figure is not netted of float thus making the premium increase estimate slightly high. Also, this assumes a constant deposit level throughout the year. There are also no adjustments for tax effects or changes in revenues or other costs.

Figure 1. Deposit Insurance Coverage in Constant (1982) and Nominal Dollars, 1934 to 1990

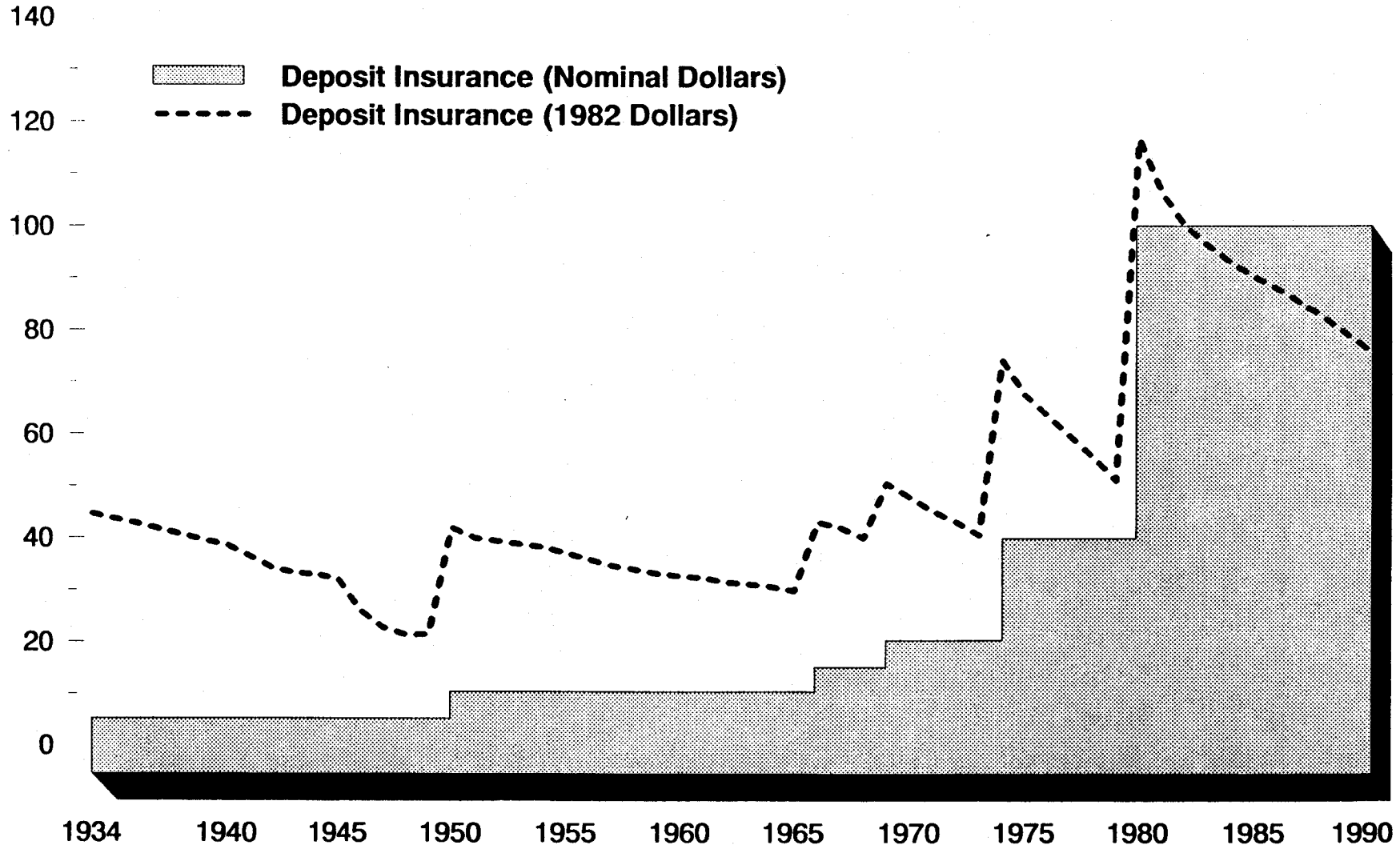

Table 1. Annual Bank Insurance Fund Losses

Year	Nominal	Real[1]	Year	Nominal	Real
	($000)			($000)	
1934	207	1,769	1964	1,541	4,684
1935	2,685	22,949	1965	663	1,962
1936	2,333	19,940	1966	245	700
1937	3,672	31,385	1967	1,010	2,813
1938	2,425	21,652	1968	12	32
1939	7,152	56,315	1969	82	206
1940	3,796	29,200	1970	272	648
1941	591	4,283	1971	193	435
1942	688	4,680	1972	1,696	3,647
1943	123	815	1973	66,386	134,113
1944	40	261	1974	40	74
1945	0	0	1975	16,312	27,508
1946	0	0	1976	247	391
1947	59	267	1977	2,093	3,110
1948	641	2,716	1978	9,015	12,486
1949	369	1,570	1979	10,872	13,832
1950	1,385	5,795	SUM[2]	140,251	422,002
1951	0	0			
1952	792	3,106	1980	30,585	35,688
1953	0	0	1981	588,100	625,638
1954	258	989	1982	1,297,009	1,297,009
1955	230	846	1983	1,521,549	1,464,436
1956	213	758	1984	1,906,107	1,769,830
1957	0	0	1985	876,774	790,599
1958	28	94	1986	1,814,518	1,594,480
1959	97	319	1987	2,147,589	1,829,292
1960	0	0	1988	6,022,068	4,964,607
1961	1,502	4,814	1989	6,089,624	4,821,555
1962	0	0	SUM[3]	22,293,923	19,193,134
1963	286	883			

[1] In 1982 dollars.

[2] Sum of the years 1934 through 1979.

[3] Sum of the years 1980 through 1989.

Source: Calculated from Annual Reports, Federal Deposit Insurance Corporation.

Table 2. Commercial Bank Failures, 1980-91

Year	Agricultural Number	Agricultural (%)[2]	Nonagricultural Number	Nonagricultural (%)	Total[1] Number	Total[1] (%)
1980	0	(0.00)	10	(0.11)	10	(0.07)
1981	1	(0.02)	9	(0.10)	10	(0.07)
1982	10	(0.19)	23	(0.25)	33	(0.23)
1983	7	(0.14)	37	(0.40)	44	(0.31)
1984	31	(0.62)	47	(0.50)	78	(0.54)
1985	69	(1.42)	49	(0.52)	118	(0.83)
1986	66	(1.41)	78	(0.84)	144	(1.03)
1987	75	(1.67)	127	(1.41)	202	(1.50)
1988	41	(0.95)	180	(2.09)	221	(1.71)
1989	22	(0.53)	184	(2.18)	206	(1.63)
1990	18	(0.44)	141	(1.76)	159	(1.30)
1991[3]	5	n.a.	51	n.a.	56	n.a.
Total	345	n.a.	936	n.a.	1281	n.a.

[1]Totals exclude mutual savings banks, savings and loan associations, commercial banks not insured by the FDIC, and banks headquartered in U.S. possessions and territories. Failures are those declared insolvent and closed by their chartering authorities plus those granted open bank assistance by the FDIC.

[2]Failures as a percent of total banks of that type during that year.

[3]Through June 30, 1991, all others are December 31.

Source: Calculated from information provided by the Federal Deposit Insurance Corporation and the Report of Condition and Income files, Board of Governors of the Federal Reserve System.

Table 3. Bank Insurance Fund Yearend Balances

Year	Nominal	Real[1]
	($billion)	
1990	8,400[2]	6,388
1989	13,210	10,459
1988	14,061	11,592
1987	18,302	15,589
1986	18,253	16,040
1985	17,957	16,192
1984	16,529	15,348
1983	15,429	14,850
1982	13,771	13,771
1981	12,246	13,028
1980	11,020	12,858

[1] In 1982 dollars
[2] FDIC estimate

Source: Calculated from Annual Reports, Federal Deposit Insurance Corporation.

Table 4. Ratio of Bank Insurance Fund To alternative deposit balances

Year	Total deposits	Domestic deposits	Insured deposits
		(percent)	
1990[1]	.31	.36	.43
1989	.48	.54	.70
1988	.53	.60	.80
1987	.72	.83	1.10
1986	.74	.84	1.12
1985	.78	.91	1.19
1984	.78	.92	1.19
1983	.77	.91	1.22
1982	.75	.89	1.21
1981	.71	.87	1.24
1980	.68	.83	1.16

[1] Based upon FDIC estimate of yearend 1990 BIF balance.

Source: Calculated from Annual Reports, Federal Deposit Insurance Corporation.

Table 5. Banks Reporting Nonperforming Loans Greater Than Capital, 1983-91[1]

Date [2]	Agricultural banks		Nonagricultural banks		Total banks	
	Number	(%)	Number	(%)	Number	(%)
1983	40	(0.78)	102	(1.10)	142	(0.98)
1984	93	(1.86)	94	(1.00)	187	(1.30)
1985	141	(2.91)	130	(1.38)	273	(1.91)
1986	158	(3.36)	230	(2.47)	388	(2.77)
1987	84	(1.88)	241	(2.67)	325	(2.41)
1988	54	(1.25)	238	(2.76)	292	(2.30)
1989	31	(0.74)	181	(2.14)	212	(1.68)
1990	13	(0.32)	130	(1.58)	143	(1.17)
1991	15	(0.37)	114	(1.42)	129	(1.07)

[1] Loans past due 90 days or more and still accruing interest plus loans in non-accrual status are considered nonperforming. Total capital includes total equity capital plus allowance for loan and lease losses plus minority interest in consolidated subsidiaries plus mandatory convertible debt plus subordinated notes and debentures.

[2] The 1991 numbers are as of June 30, all others are December 31.

Source: Calculated from the Report of Condition and Income files, Board of Governors of the Federal Reserve System.

Table 6. Commercial Bank Real Estate Lending by Type of Bank, June 30, 1991

Bank group	Commercial banks	RE loans to total loans[1]	Nonperf. RE to total RE[2]	Total nonperf. to total loans	Nonperf. RE to total nonperf.	Weak banks[3]
	No.	percent				No.
All	12,081	40.7	4.89	4.05	49.0	129
Agricultural	4,077	41.6	1.87	1.90	40.9	15
Small nonagricultural	7,384	55.2	2.22	2.26	54.3	101
Urban	5,459	39.7	5.35	4.32	49.1	96
Rural	6,622	49.3	1.76	1.84	47.4	33
Large nonagricultural	620	37.0	6.04	4.61	48.6	13

[1]RE = real estate.

[2]Nonperf. = nonperforming; 90 days past due and still accruing interest plus nonaccrual.

[3]Weak banks are banks with total nonperforming loans in excess of total capital.

Source: Calculated from Report of Condition and Income files, Board of Governors of the Federal Reserve System.

Table 7. Deposit Balances Held by FDIC Insured Banks

Year	Total deposits	Foreign deposits	Domestic deposits	Insured deposits
			($ billion)	
1990	2,668	330	2,338	1,903
1989	2,777	311	2,466	1,874
1988	2,646	315	2,331	1,750
1987	2,543	341	2,202	1,659
1986	2,481	313	2,168	1,634
1985	2,296	321	1,975	1,503
1984	2,124	317	1,807	1,390
1983	1,999	308	1,691	1,268
1982	1,851	306	1,545	1,134
1981	1,727	318	1,409	989
1980	1,618	294	1,321	949

Source: Federal Deposit Insurance Corporation Annual Reports, and Report of Condition and Income files, Board of Governors of the Federal Reserve System.

Table 8. Deposits at FDIC-insured banks, June 30, 1990

Type of deposits	Amount of deposits[1]	Percent of total deposits
Domestic deposits		
Demand deposits	$430	15.5
NOW accounts	209	7.5
MMDA deposits	386	13.9
Savings accounts	232	8.4
Time deposits < $100,000	775	27.9
Time deposits > $100,000	409	14.7
Subtotal domestic deposits	$2,447	88.0
Foreign deposits	$330	11.9
Total funds on deposit[2]	$2,771	100.0
Memorandum[3]		
Brokered deposits	78	2.8
IRA/Keogh accounts	143	5.2
Interbank deposits	51	1.8

[1] Dollars in billions

[2] Totals may not add due to rounding and presence of miscellaneous items.

[3] Memorandum items are included in deposit categories listed above.

Source: Deposit Insurance: A Strategy For Reform. GAO/GGD-91-26.

Table 9. FDIC Effective Deposit Insurance Fee Level, 1934-90.[1]

Year	Total domestic deposits	Assessment income	Assessment credit	Net assessment	Effective fee
1990	2,338,270	n.a.	0.0	n.a.	n.a.
1989	2,465,922	1,885.0	0.0	1,885.0	.00076
1988	2,330,768	1,773.0	0.0	1,773.0	.00076
1987	2,201,549	1,696.0	0.0	1,696.0	.00077
1986	2,167,596	1,516.9	0.0	1,516.9	.00070
1985	1,974,512	1,433.4	0.0	1,433.4	.00073
1984	1,806,520	1,321.5	0.0	1,321.5	.00073
1983	1,690,576	1,214.9	164.0	1,050.9	.00062
1982	1,544,697	1,108.9	96.2	1,012,7	.00066
1981	1,409,322	1,039.0	117.1	921.9	.00065
1980	1,324,463	951.9	521.1	430.8	.00033
1979	1,226,943	881.0	524.6	356.4	.00029
1978	1,145,835	810.1	443.1	367.0	.00032
1977	1,050,435	731.3	411.9	319.4	.00030
1976	941,923	676.1	379.6	296.5	.00031
1975	875,985	641.3	362.4	278.9	.00032
1974	833,277	587.4	285.4	302.0	.00036
1973	766,509	529.4	283.4	246.0	.00032
1972	697,480	468.8	280.3	188.5	.00027
1971	610,685	417.2	241.4	175.8	.00029
1970	545,198	369.3	210.0	159.3	.00029
1969	495,858	364.2	220.2	144.0	.00029
1968	491,513	334.5	202.1	132.4	.00027
1967	448,709	303.1	182.4	120.7	.00027
1966	401,096	284.3	172.6	111.7	.00028
1965	377,400	260.5	158.3	102.2	.00027
1964	348,981	238.2	145.2	93.0	.00027
1963	313,304	220.6	136.4	84.2	.00027
1962	297,548	203.4	126.9	76.5	.00026
1961	281,304	188.9	115.5	73.4	.00026
1960	260,495	180.4	100.8	79.6	.00031
1959	247,589	178.2	99.6	78.6	.00032
1958	242,445	166.8	93.0	73.8	.00030
1957	225,507	159.3	90.2	69.1	.00031
1956	219,393	155.5	87.3	68.2	.00031
1955	212,226	151.5	85.4	66.1	.00031
1954	203,195	144.2	81.8	62.4	.00031
1953	193,466	138.7	78.5	60.2	.00031
1952	188,142	131.0	73.7	57.3	.00030
1951	178,540	124.3	70.0	54.3	.00030
1950	167,818	122.9	68.7	54.2	.00032

Table 9. Continued

1949	156,786	122.7	0.0	122.7	.00078
1948	153,454	119.3	0.0	119.3	.00078
1947	154,096	114.4	0.0	114.4	.00074
1946	148,458	107.0	0.0	107.0	.00072
1945	157,174	93.7	0.0	93.7	.00060
1944	134,662	80.9	0.0	80.9	.00060
1943	111,650	70.0	0.0	70.0	.00062
1942	89,869	56.5	0.0	56.5	.00063
1941	71,209	51.4	0.0	51.4	.00072
1940	65,288	46.2	0.0	46.2	.00071
1939	57,485	40.7	0.0	40.7	.00071
1938	50,791	38.3	0.0	38.3	.00076
1937	48,228	38.8	0.0	38.8	.00080
1936	50,281	35.6	0.0	35.6	.00071
1935	45,125	11.5	0.0	11.5	.00025
1934	40,060	(4)	0.0	(4)	(.0010)

[1]Effective fee level is slightly low as total domestic deposits are not net of float. Deposits are in millions of dollars.

[2]Unweighted average effective fee for years with rebates (1950-1983) is 0.034%; unweighted average effective fee for years without rebates (1934-1949;1984-1989) is 0.067%.

Source: Annual Reports, Federal Deposit Insurance Corporation.

Table 10. Amount and Percentage of Insured and Uninsured Deposits by Bank Size, June 30, 1990.

Bank size ($ assets)	Number of banks	Insured deposits amount	percent	Uninsured deposits amount	percent
Greater than $10 billion	46	$414.7	22.1	$531.4	59.2
$1-10 billion	377	637.3	33.9	244.9	27.3
Less than $1 billion	12,540	828.0	44.0	121.1	13.5

Note: dollars are in billions and may not add due to rounding. Table includes BIF-insured commercial and savings banks.

Source: Deposit Insurance: A Strategy for Reform. GAO/GGD-91-26

Table 11. Impact of Increase in Deposit Insurance Assessment Rates on Fees Paid by Banks.[1]

Effective date	Fee per $100 domestic deposits	Average big[2] bank fee	Average ag[3] bank fee
Through December 31, 1989	.083	12,399,071	29,327
January 1-December 31, 1990	.12	17,925,168	42,400
January 1-June 30, 1991	.195	29,130,348	68,901
July 1, 1991-present	.23	34,358,872	81,267

[1]These fees are slightly overstated as calculations were performed on assessment base including float using December 1990 data.

[2]Average balance sheet items for the 45 largest U.S. banks, December 31,1990.

[3]Average balance sheet items for 4,067 banks meeting Federal Reserve System definition on December 31, 1990.

Table 12. Relative Market Shares of Selected Balance Sheet Items[1].

Item	Large banks	Ag banks
Total assets	8.3	4.8
Domestic deposits	28.8	6.2
Foreign deposits	88.0	0.0
Total equity	31.2	6.8
Equity/assets	5.3	9.1

[1] Both figures are in percent. Large bank figures are based on holdings of the 45 largest U.S. banks. The agricultural bank figures are based on holdings of 4,067 banks meeting the Federal Reserve definition December 31, 1990.

Source: Calculated from Report of Condition and Income files; Board of Governors of the Federal Reserve System.

Table 13. Average Bank Balance Sheets, June 1990.

Item		Large banks	Agricultural banks
Assets			
Loans:	domestic	13,218.1	18.4
	foreign	4,450.3	0.0
Securities:	domestic	2,734.7	14.4
	foreign	710.3	0.0
Other:	domestic	4,843.5	5.0
	foreign	2,691.6	0.0
Liabilities			
Deposits:	domestic	4,365.9	33.4
	foreign	6,483.8	0.0
Other		6,890.2	0.9
Total liabilities		27,739.9	34.3
Equity		1,457.3	3.5

Based on all U.S. banks with over $10 billion in assets (large banks) and all banks with greater than the national average ratio of agricultural loans to total loans (agricultural banks) December 31, 1990. All numbered are in millions of dollars.

Source: Calculated from Report of Condition and Income files, Board of Governors of the Federal Reserve System.

Table 14. Relative Burden of Deposit Insurance Using Alternative Fee assessment bases[1]

	Large banks[2]		Agricultural banks[3]	
Effective date	Average assessment per bank ($000)	Fee per dollar of assets	Average assessment per bank ($000)	Fee per dollar of assets
Domestic deposits	34,359	.120	81	.203
Total deposits	42,196	.147	72	.181
Total liabilities	46,328	.162	62	.155
Total assets	45,745	.160	64	.160

[1]These fees are slightly overstated as calculations were performed on assessment base including float using December 31, 1990 data.

[2]Average balance sheet items for the 45 largest U.S. banks, December 31, 1990.

[3]Average balance sheet items for 4,067 banks meeting Federal Reserve System definition on December 31, 1990.

Source: Calculated from Report of Condition and Income files, Board of Governors of the Federal Reserve System.

Table 15. Impact of Deposit Insurance Fee Increases on Potential Lending of an Average Agricultural Bank.[1]

Effective date	Fee per $100 domestic deposits	Reduction in lending	Cumulative total
Through December 31, 1989	.083	n.a.[2]	n.a.
January 1 - December 31,1990	.120	$69,812	$69,812
January 1 - June 30, 1991	.195	$141,512	$211,324
July 1, 1991 - present	.230	$66,036	$277,360

[1]The average agricultural bank as of December 31, 1990 had $39.9 million of assets, $19.4 million of loans, capital ratio of 9.1%, $35.3 million of domestic deposits and a loan-to-asset ratio of 48.6%. The above analysis assumes the cost of the fee increase is absorbed in the proportion of the current portfolio with no tax effects and no change in other costs.

[2]not applicable

Source: Calculated from Report of Condition and Income files, Board of Governors of the Federal Reserve System.