

SCHWARTZ & BALLEN
1990 M STREET, N.W. · SUITE 500
WASHINGTON, DC 20036-3418

(202) 776-0700

FACSIMILE
(202) 776-0720

schwartzandballen.com

MEMORANDUM

May 24, 2002

To Our Clients and Friends

Re: Federal Deposit Insurance Reform Act of 2002

On Wednesday, by a vote of 408-18, the House passed the Federal Deposit Insurance Reform Act of 2002 (H.R. 3717). Major provisions of the bill include:

- Merger of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF);
- Increase in insurance coverage limits
 - Individual accounts covered up to \$130,000 (up from \$100,000)
 - IRA and 401(k) account coverage limits doubled to \$260,000;
- Indexing future coverage limits to inflation every 5 years;
- Removal of legal constraints on risk-based premium assessments;
- Reserve ratio reform:
 - Elimination of 23 basis point premium “rate cliff” that occurs when the reserve ratio of deposits insured to premiums held falls beneath 1.25 percent for more than one year
 - Creation of reserve ratio operating range for the deposit insurance fund of 1.15 percent to 1.40 percent
 - Requirement that half of excess funds in the insurance fund be returned to banks when the insurance fund’s reserve ratio is above 1.35 percent, and that all excess reserves be returned when the reserve ratio exceeds 1.40 percent
 - Limitation on assessments for the highest rated institutions to no more than 1 basis point when the reserve ratio is greater than 1.15 percent
 - Establishment of a 12-basis point credit pool to be applied against future assessments under certain circumstances

SCHWARTZ & BALLEN

- Increase in municipal deposit coverage limits to \$2 million in order to keep more local money in local banks; and
- Parity in credit union insurance coverage.

The bill has received widespread bipartisan support (reported out of the House Financial Services Committee with a 52-2 vote), and has been supported by the Bush Administration, many Federal and State regulators, and industry and consumer groups.

Despite passing by an overwhelming majority in the House, it is reported that the legislation is likely to face stiff opposition in the Senate. Some are concerned that the increase in insured deposit limits and adjustments for inflation places the insurance fund at risk. In addition, some trade groups are prepared to push for new provisions including reintroduction of a “free-rider” amendment that would allow the FDIC to charge fast-growing institutions a special premium.

The bill can be found at <http://www.schwartzandballen.com/WhatsNew.htm>.

If you have any questions concerning this bill, please call Gilbert Schwartz, Robert Ballen or Tom Fox at (202) 776-0700.