MAR 29
Jenna McNamee

Banks will foot part of a $20 billion bill that saved SVB depositors

Article

The news: Insuring the deposits of all **Silicon Valley Bank** customers over the $250,000 limit **will cost the Federal Deposit Insurance Corporation (FDIC) nearly $20 billion,** per an agency statement.

The FDIC will report the exact amount when it fully terminates its receivership of the collapsed bank's assets. **The estimated $20 billion is about one-sixth of the total Deposit Insurance Fund,** which was at $128.2 billion as of December 2022.

Who's paying for that? When the decision to cover SVB's uninsured deposits was announced, financial regulators and President Biden made it clear that the cost would not affect taxpayers. So who's paying for this?

- Some of the cost will likely be covered by a portion of the proceeds the FDIC receives from the sale of the bank's assets. North Carolina-based **First Citizens Bank** agreed last week to purchase SVB's deposits and loans for $16.5 billion.
- But that won't cover the entire cost. According to Dodd-Frank, losses to the Deposit Insurance Fund to cover uninsured depositors will be recovered by a special assessment on banks.

What's so special about it? Currently, banks that participate in the FDIC deposit insurance program pay a quarterly assessment for the service.

- The assessment is calculated by multiplying a bank's assessment rate by its assessment base. The assessment rate is determined by the bank's size, complexity, and capitalization level. The assessment base is defined as the bank's average consolidated total assets, minus its average tangible equity.
- **A special assessment would be an amount paid in addition to the quarterly assessment.**

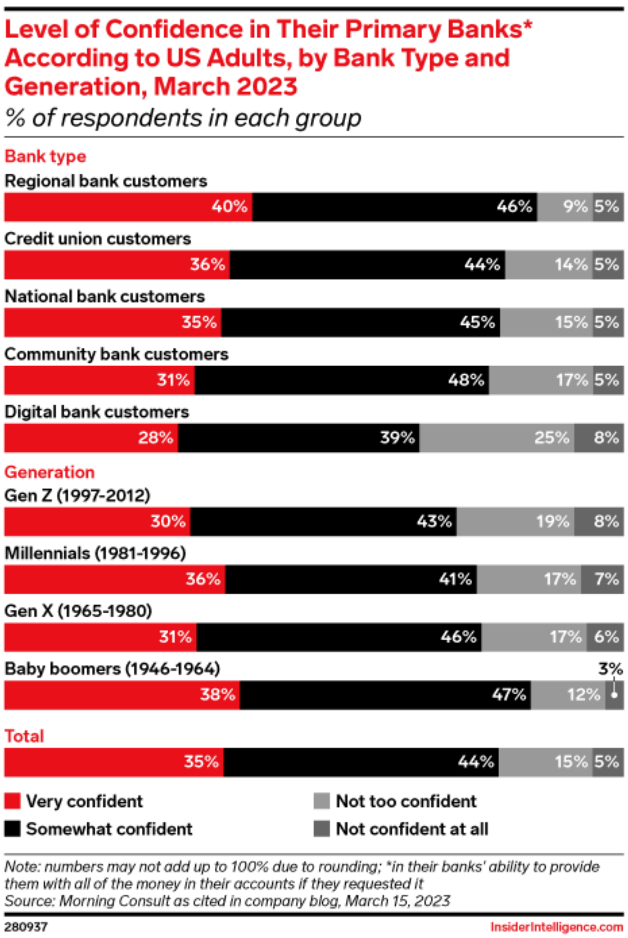
Will insurance be extended further? Soon after government officials announced insurance coverage for all of SVB's and **Signature Bank's** deposits, struggling regional banks around the country clamored for a similar guarantee. In reply, financial regulators only offered vague statements about doing what was necessary to maintain stability in the banking sector.

What would be the consequences of making that guarantee?

- **The FDIC would need to boost the amount in the Deposit Insurance Fund** in case contagion took hold and banks struggled to keep up with withdrawal demands. The need to up the Deposit Insurance Fund balance would put a lot of strain on banks, which would need to make payments to the FDIC to cover the guarantee. **As a result, banks would likely see a significant and permanent increase to their quarterly assessments.**

- And while taxpayers would appear to be sheltered in this type of bailout, **banks would in time likely pass on the higher cost of their assessment to customers** in the form of higher fees, higher interest rates, and lower rates on savings accounts.

Banking regulation would require a major makeover to prevent banks from taking on more risk because they felt comfortable that deposits would be guaranteed. Capitalization requirements would become extremely tight, stress tests would be robust and frequent, and financial regulators would need to make a concerted effort to ensure laws were heavily enforced.



*This article originally appeared in Insider Intelligence's **Banking Innovation Briefing**—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*

- *Want to learn more about how you can benefit from our expert analysis? [Click here.]*