

US Rates Watch

FDIC assessment: limited funding impact

Assessment over 2 years on large uninsured deposits

The FDIC announced today that to recover an anticipated \$15.8bn cost of the three recent bank failures, it is proposing for public comment a plan to recover the cost by assessing a special quarterly fee on banks that hold large amounts of uninsured deposits. The proposal would assess a fee of 12.5bp per year for 2 years on the uninsured deposits above \$5bn, likely starting with a first quarterly payment on June 30, 2024 if the proposal is adopted as is.

According to a statement made by FDIC Chair Martin Gruenberg: “As proposed, it is estimated that a total of 113 banking organizations would be subject to the special assessment. Banking organizations with total assets over \$50 billion would pay more than 95 percent of the special assessment. No banking organizations with total assets under \$5 billion would be subject to the special assessment.” Our understanding is that this special assessment is required under the Federal Insurance Deposit Act and was triggered by the systemic risk determination that allowed uninsured depositors to be guaranteed in the 3 closed banks.

Limited impact on funding markets

In general, FDIC assessment is somewhat akin to SLR (supplementary leverage ratio) in that it requires an amount of capital set aside, held at the FDIC, based on the size of liabilities, in this case uninsured deposits, but more generally total liabilities. This is a risk-insensitive capital requirement based on a balance sheet size metric like a leverage ratio requirement. FDIC charges are generally a disincentive for insured banks to expand their balance sheet for relatively small profit gains that do not offset the total size-based capital needs.

The standing FDIC surcharge & SLR requirement are key reasons why domestic banks have largely stopped opportunistically borrowing in the fed funds or repo markets (i.e. borrow in FF or repo and deposit at Fed’s IOR rate). This activity is now primarily concentrated within foreign banks who do not pay for FDIC insurance and/or have more favorable SLR rules from their home regulator.

Banks subject to the FDIC surcharge are not active players in this FF/repo arbitrage. Therefore, the new FDIC assessment is unlikely to have a material impact on current FF or repo dynamics. In theory, if FDIC assessments rise more broadly, it could put some downward pressure on FF or repo to attract continued overnight borrowing in FF and repo to place at IOR. In practice, this seems unlikely due to limited money market arb presence of impacted FDIC insured banks. To the extent that there are some FDIC-insured actors in this spread market, higher barriers to trade could widen the spread to IOR slightly.

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Rates Research
United States

Mark Cabana, CFA
Rates Strategist
BofAS
+1 646 855 9591
mark.cabana@bofa.com

Ralph Axel
Rates Strategist
BofAS
+1 646 855 6226
ralph.axel@bofa.com

US Rates Research
BofAS
+1 646 855 8846

[See Team Page for List of Analysts](#)

FDIC: Federal Deposit Insurance Corp
IOR: Interest on reserves
FF: fed funds rate

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Research Analysts

Ralph Axel

Rates Strategist

BofA

ralph.axel@bofa.com

Mark Cabana, CFA

Rates Strategist

BofA

mark.cabana@bofa.com

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