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Chairman Shelby, Senator Sarbanes, and Members of the Committee, I am pleased to have this opportunity to present the views of the OCC on deposit insurance reform. For almost 70 years, federal deposit insurance has been one of the cornerstones of our nation's economic and financial stability. It restored public confidence in the banking system after the Great Depression, and made it possible for the United States to weather subsequent banking crises with minimum disruption to our economy.

Nonetheless, our current deposit insurance structure is flawed. Some of these flaws date to the inception of the deposit insurance system. Others have been introduced over the years – sometimes with the best intentions. For example, legislation adopted in response to the banking and thrift crises of the 1980s and early 1990s has had the effect of preventing the FDIC from taking what it had reason to believe were sensible and necessary actions. Due in large part to these statutory restrictions, the FDIC cannot price deposit insurance in a way that accurately reflects the risks posed by different depository institutions and that avoids the need for sharp increases in premiums if a fund experiences significant losses.

The OCC believes that the FDIC should be free to set risk-based premiums for all insured institutions. Currently, it is prohibited from charging premiums to roughly 91 percent of all insured depository institutions. Deposit insurance pricing should create an incentive for good management by rewarding institutions that pose a low risk to the insurance funds. A system in which the vast majority of institutions pay no insurance premium doesn't do that.

Under our current system, most institutions pay no premiums when the funds are well capitalized. If a fund falls below a designated reserve ratio, or DRR, of 1.25 percent of insured deposits, the FDIC may be required to charge an assessment rate of at least 23 basis points. This sharp rise in premiums is most likely to take effect when banks can least afford it – during an economic downturn. To avoid this situation, the FDIC should be given the authority to establish a range for the DRR and to rebuild a fund gradually if its balance falls below the bottom of the range.

If a fund exceeds the upper boundary of the range, the FDIC should be authorized to pay rebates or to grant credits against future premiums. However, any arrangement for rebates or credits should reflect the fact that not all insured institutions receive the same services for their deposit insurance dollars. The FDIC uses deposit insurance funds to offset the costs of supervising state-chartered banks. It would be unconscionable for the FDIC to issue credits or rebates to all banks without first taking into account the subsidy it provides to state chartered banks, provided in large part by national banks.

Finally, the BIF and the SAIF should be merged. There is already significant overlap in the types of institutions insured by the two funds, and a combined fund would provide even greater diversification. Moreover, under the current structure, BIF and SAIF deposit insurance premiums could differ significantly depending on the relative performance of the two funds, raising the possibility that institutions with similar risks could pay very different insurance premiums. Deposit insurance premiums should be based on the degree of risk posed by an institution and not which fund happens to insure a particular institution's deposits.

Thank you. I would be glad to answer any questions.