FAQs on the FDIC and its Systemic Risk Exemption Authority

House Financial Services Committee Republicans

What is FDIC deposit insurance?

The FDIC is an independent agency of the federal government, created in 1933 in response to a number of bank failures in the 1920s and early 1930s. The FDIC is funded by premiums that banks and savings associations pay for deposit insurance – the proceeds of which are held in the FDIC Deposit Insurance Fund (DIF). The DIF is used to insure trillions of dollars of deposits in U.S. banks and thrifts. Deposits at FDIC-insured institutions are insured up to $250,000 per depositor, per insured bank, for each account ownership category. Since the beginning of FDIC insurance in 1934, no depositor has lost a penny of insured funds as a result of a failure.

What did the FDIC do to guarantee uninsured deposits at Silicon Valley Bank and Signature Bank?

On recommendation of the boards of the FDIC and the Federal Reserve Board, and in consultation with the President, Treasury Secretary Yellen approved certain actions to authorize the FDIC to resolve Silicon Valley Bank and Signature Bank in a manner that fully protects all depositors of those banks, regardless of the size of the deposit—that is, even deposits above the FDIC normal insurance maximum of $250,000 will be able to access and use their funds on Monday. Accordingly, all depositors will receive access to all of their deposits that were held by Silicon Valley Bank and Signature Bank.

While the actions of the FDIC, FRB, and Treasury will protect depositors, they will not bail out any shareholders or non-depositor unsecured debtholders at either Silicon Valley Bank or Signature Bank.

These actions were authorized under the Systemic Risk Exception to the Federal Deposit Insurance Act's "least cost resolution" mandate.

What is the Systemic Risk Exception?

Under the Federal Deposit Insurance Act ("FDI Act"), the FDIC is charged with resolving failed banks and protecting insured deposits in a manner that is "least costly to the Deposit Insurance Fund." See 12 U.S.C. 1823. As a general matter, the FDIC is prohibited from protecting "depositors for more than the insured portion of deposits." However, importantly, the FDIC may invoke a systemic risk exception to protect otherwise uninsured deposits. To invoke the systemic risk exception, the Treasury Secretary must make an emergency determination, in consultation with the President, and at the written request of the FDIC Board of Directors and the Federal Reserve Board, that compliance with the least cost resolution rule would have "serious adverse effects on economic conditions or financial stability." 12 U.S.C. 1823.

Will taxpayers be on the hook for protecting uninsured deposits at Silicon Valley Bank and Signature Bank?

No, taxpayers funds are not used when the systemic risk exception is invoked. Under the FDI Act, the FDIC is required to recover any loss to the Deposit Insurance Fund through a special assessment on insured depository institutions and/or bank holding companies. If the FDIC seeks a special assessment on bank holding companies, the Treasury Secretary must provide concurrence. See 12 U.S.C. 1823(c)(4)(G).

Will there be oversight of the actions taken by the FDIC and Treasury in using the Systemic Risk Exception?

Yes, the determination to invoke a systemic risk exception must be reviewed by GAO. In addition, no later than 3 days after making a determination, the Secretary of the Treasury shall provide written notice to the House Financial Services Committee and Senate Committee on Banking, Housing, and Urban Affairs describing the basis of the determination. See 12 U.S.C. 1823(c)(4)(G)(iv) and (v).

Is this separate from the Federal Reserve's establishment of the Bank Term Funding Program (BTFP)?

Yes, this is separate from the BTFP. The BTFP is a liquidity backstop established through the Federal Reserve's authority under section 13(3) of the Federal Reserve Act. The BTFP is intended to ensure that

Bank's can meet their liquidity needs by lending against safe, long-term assets. In contrast, the Federal banking agencies' invoking of the systemic risk exception is intended to restore confidence and financial stability by making whole depositors at two insolvent institutions.

Why has Treasury and the Federal banking agencies taken such extraordinary actions?

Given the unprecedented speed of the bank run faced by certain financial institutions, Treasury, FDIC, and the FRB have exercised their statutory authority to restore calm, confidence, and stability to the U.S. financial markets.