



The Reform of Federal Deposit Insurance

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Abstract

In early 1989, the system of deposit insurance in the United States was in crisis. The Federal Savings and Loan Insurance Corporation (FSLIC), the U.S. government agency that provided deposit insurance for savings and loan (thrift) institutions, had sustained massive losses from the insolvencies of hundreds of thrifts. Tens of billions of dollars of general Treasury revenues will be necessary to make good the losses in the insurance fund, which had previously been financed solely through premiums assessed on thrifts' deposits. The Federal Deposit Insurance Corporation (FDIC), which provides similar insurance for deposits in commercial banks, has sustained much smaller losses but is considered to be in poor enough financial condition that its premium assessments will increase substantially. This article will review the current system of deposit insurance and advocate a set of necessary reforms.

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