Two Deposit Insurance Funds: In the Public Interest?

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Abstract
In 1996, considerable attention was focused on recapitalizing the SAIF and averting a default on FICO bond interest payments. Legislation passed in September 1996 dealt with these problems, and provided for the eventual merger of the funds if the thrift charter were eliminated. This paper analyzes some of the quantifiable economic benefits gained from merging the deposit insurance funds. It examines the historical reasons for maintaining separate funds, assesses the theoretical benefit from a merger, analyzes the historical evidence of such a benefit, and uses a value-at-risk framework to estimate the benefits of a merger of the funds. Combining the deposit insurance funds may result in a lower probability of fund insolvency from unanticipated economic shocks than keeping the funds separate. This risk-pooling benefit may result in a combined fund coverage requirement that is less than that required for separate funds and still provide the same buffer against unanticipated losses.