Solution to the fdic deposit insurance fund: a response

After recently discovering a desire to have a career in Office Administration, I decided to take classes to obtain further training. In one of my classes, English 121 to be exact; I was required to interview someone in the specific field that I would consider entering into. I chose to conduct my interview with Ashley Clevenger, a Senior Administrative Assistant at the Bank of Delmarva. Mrs.

Clevenger informed me how she must constantly check for updates on regulations from the FDIC, the Federal Deposit Insurance Commission. The FDIC is a The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation’s financial system by: insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, and managing receiverships (Web). The FDIC was created to help banks; however it has been overused due to the large amount of bank failures. Authors Michael T.

Tasto and Gregory M. Randolph, published a journal called “ Propose Solutions to the FDIC Deposit Insurance Fund” during winter 2011/2012 for St. John’s Review of Business; seeking to give information to practitioners/instructors on the problems the FDIC’s Deposit Insurance Fund (DIF) and possible solutions to replenish the Fund. Summary Tasto and Randolph explain how the FDIC is continuing in its efforts in purchasing failed banks, due to the recent chaos in the banking industry. Tasto and Randolph tells that the Federal Deposit Insurance Reform Act of 2005 created the DIF, which allows the FDIC to try to recover failed insured banks and this fund has been emptied.

The authors describe how bank failures skyrocketed, going from three to 140 failed FDIC Insured banks in 2009 and 157 banks in 2010, which put pressure on the FDIC DIF. They state, “ The FDIC collects assessments from insured financial institutions in order to fund the DIF. ” The FDIC determine the rate of assessments by placing banks nto groups according to the bank’s CAMEL (capital, assets, management, earnings, liquidity and sensitivity to market risks) placing higher rates on banks likely to fail. Despite its attempts, these actions had the DIF balance hadn’t improved in the beginning of 2010.

Tasto and Randolph found that among the different choices of solutions, “ depositing insurance funds prior to the disbursement of the funds (ex ante collections) or a hybrid system that collects funds before they are needed but allows for special assessments after the fact(hybrid method)” were most helpful. These two approached are used by four-fifths of the nations, noted by the International Association of Deposit Insurers (IADI, 2008), because they provide an assurance to the system by collecting from all banks and spreading out the costs of insurance over time. Tasto and Randolph break down how the FDIC implemented the ex ante funding system, as well as continuing in the CAMEL rating system, however this decision didn’t fully resolve the problem. The authors conclude that the FDIC has taken steps toward restoration, although there is no quick fix. The damage that has been done will need some quick in-filling of cash into the DIF, and a great deal of evaluating the risk of bank failures. Tasto and Randolph are assured that regardless of the solution, more analysis will need to be taken to prevent further failure.

Response I agree with Tasto and Randolph's proposed solutions, for the FDIC DIF. Tasto and Randolph adequately gave information about the state of the FDIC DIF, during the time of the making of their report. They gave an in-depth summary of the problems with the Deposit Insurance Fund, along with graphical statistics. Tasto and Randolph, effectively created questions for professors to use for discussions, as stated in their thesis statement. The authors were able find information from the International Association of Deposit Insurers to see the solution that they posed, as reliable.

However, I think that Tasto and Randolph could've given the specific nations used by the IADI, along with statistics of how the solutions were used in these nations. The statistical graphs, of each solution along-side each other, would have given the instructors an image of the solutions at work. Conclusion Regardless of the action that the FDIC uses to restore the fund, there is not a quick fix. Michael Tasto and Gregory Randolph, professors at Southern New Hampshire University, wrote an article on proposed solutions to replenish the FDIC's Deposit Insurance Fund. After reading this article, I know that the instructors had a greater knowledge of the state of the FDIC DIF, and were able to have information discussions with their students.