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DEPOSIT INSURANCE

Glenn Grossman



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Introduction

Deposit insurance has become a foundational but often overlooked part of the modern U.S. financial system, shaping how households, businesses, banks, and credit unions view and use deposit accounts. From its controversial beginnings amid the turmoil of the Great Depression to its current status as a standard feature of our financial system, this system now underwrites confidence in trillions of dollars of balances—even as the structure and function of financial institutions have changed significantly. Yet the bank failures of 2023, the growth of uninsured deposits, and renewed legislative interest in expanding federal coverage have exposed ongoing tensions between financial stability, moral hazard, and the ultimate cost of deposit protection.

This report examines the evolution, costs, and consequences of deposit insurance in the United States with a focus on how different insurance models allocate risk between depositors, financial institutions, and taxpayers. It traces the historical development of federal deposit insurance for banks and credit unions, analyzes how shifting industry structure and supervision have altered the risk profile of failures, and explores the growing concern of large uninsured deposit balances. It further highlights that higher coverage levels and complex regulatory mandates can weaken market discipline, redistribute costs through bank assessments and customer pricing, and concentrate losses when large institutions fail.

Against this backdrop, the report evaluates the role of private deposit insurance—specifically the American Share Insurance (ASI) model—as a potential complement or alternative to expanded federal coverage. By comparing capital strength and supervisory differences across federal and private schemes, and by drawing insights from other federal insurance programs such as crop insurance and large asset classes insured in the private market, the report considers how a more diversified deposit insurance framework might reduce moral hazard, preserve market discipline, and better align costs with those who benefit most from increased deposit insurance levels.

Deposit Insurance History

The Federal Deposit Insurance Corporation was created as a mandate from the Banking Act of 1933. Insuring deposits in the United States began as a temporary solution in 1934, with an initial protected value of \$2,500; 13,201 banks were insured at the onset of the deposit insurance fund, representing 90% of commercial banks at that time. By July 1934, the maximum level of deposit insurance was raised to \$5,000, and deposit insurance became permanent in 1935.

Credit unions began to offer share insurance (deposits are often referred to as shares in credit unions) in 1970 with an initial coverage level of \$20,000 per member account. The Share Insurance Fund has been operated by the National Credit Union Administration (NCUA) since its founding. Since its inception, both the FDIC and NCUA have stated that no deposit account holder has lost a penny from an insured institution, but account holders with uninsured balances have experienced losses, with the rate of losses incurred declining over time (FDIC, 2023, a). In 1974, a private deposit insurance option for state-chartered credit unions began through American Share Insurance (ASI) and is available at the time of this report in ten states, providing the similar insurance limits for savings, checking, money market accounts as offered by the NCUA at \$250,000 for each account. In contrast to the FDIC insurance model that insures by the account holder (the individual) while the NCUA/ASI approach is aligned to individual accounts.

Today, deposit insurance is standard with all traditional deposit accounts in the United States whose deposit accounts are held at FDIC member commercial banks and credit unions (NCUA or ASI insured). FDIC coverage is limited to \$250,000 per category (there are 12 categories of accounts) of insured accounts and has been at this level since 2008 (Table 1). The ubiquity of deposit insurance can make awareness an afterthought for some account holders. A 2001 report indicated that 49% of respondents (individuals familiar with their household finances) could accurately identify the deposit insurance limits, and 35% did not know the limit (FDIC, 2001).

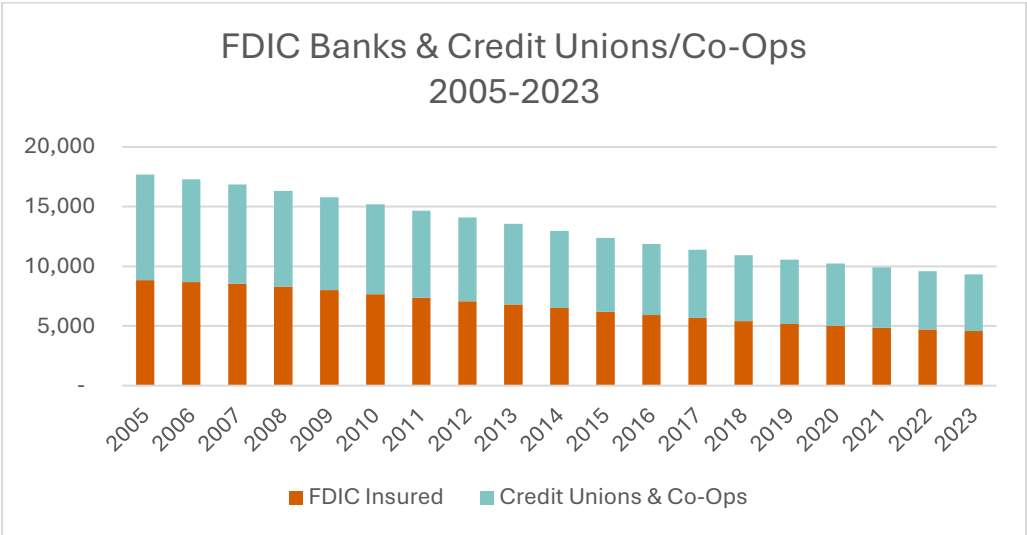
Table 1: History of Deposit Insurance Changes

Year	Amount
1934	\$2,500
1934	\$5,000
1950	\$10,000
1966	\$15,000
1969	\$20,000
1974	\$40,000
1980	\$100,000
2008	\$250,000

Source: FDIC

The banking and credit union industry has changed dramatically since the 1930's. These institutions serve both retail and commercial deposit account holders in an economy that is far more complex than in earlier decades. Many of the regulations that existed during the early decades of deposit insurance, including interest rate restrictions and limits on interstate banking, have been removed. The number of deposit-taking institutions has decreased due to industry consolidation, increasing the size and the potential impact when a large institution falters within the industry (Figure 1).

Figure 1: FDIC Insured Institutions and Credit Union/Co-Ops in the United States



Source: FDIC and FRED (USAFCIODUNUM)

The FDIC and NCUA, while being tasked as deposit insurance providers, are also tasked with regulating and examining banks. In 2025, 63% of FDIC insured banks were supervised by the FDIC, and the same percentage of NCUA insured credit unions are supervised by the NCUA. A bank examination by these agencies goes beyond the requirements for safety and soundness tied to deposit insurance to include topics like governance, anti-money laundering and cybersecurity.

There is a myriad of bank supervisory agencies for commercial banks. These agencies include the Office of the Comptroller of the Currency (OCC) for national banks, or the Federal Reserve Board responsible for examining state-chartered banks joining the Fed system, with State Banking Regulators overseeing state-chartered banks not in the Fed system. Credit unions are supervised by the NCUA or a state-chartering organization. If a state-chartered credit union obtains deposit insurance from the NCUA, an NCUA examination is also required.

When a bank or credit union faces severe financial distress, conservatorship is a process to stabilize the financial institution. While banks can raise capital from financial markets, credit unions cannot raise capital from the public or private markets. Credit unions primarily raise capital through retained earnings as a

function of their operations. Private deposit insurance for credit unions, as provided by ASI, seeks to minimize the loss to the credit unions that own the deposit insurance fund. ASI acts as a fiduciary and has various financial levers to pull on in case of a crisis. One such approach is requiring a troubled credit union to recapitalize. To recapitalize a credit union means to restore or strengthen its capital (net worth) through intervention by ASI along with improving earnings. Additional outcomes for banks and credit unions that are struggling financially may include a merger, Purchase and Assumption (P&A) or liquidation.

Deposit Insurance Origins – Far from a Sure Thing

While deposit insurance existed in various forms through state-based insurance programs dating back to the early 1800's, these programs did not survive. Designed to support state-chartered banks, most had closed in the 1920's, with the Texas program closing in 1930. During the financial turmoil of the Great Depression depositors withdrew funds and sought safe havens such as the postal savings banks, which offered deposit insurance up to \$2,500 per account and were operated by the US government, conveying a sense of protection (Bradley, 2000).

The economic turbulence of the 1930s was a period that witnessed struggles for the U.S. economy and banking institutions. In response to these challenges, President Herbert Hoover urged the formation of the National Credit Corporation (NCC) in 1931. The intent was to establish a private organization of banks that could provide interbank loans, allowing stronger banks to support financially weaker banks. Although the NCC's actions appeared to reduce some bank failures; but the need for federal intervention was ultimately deemed necessary.

In 1932, a bill to implement deposit insurance sponsored by Representative Henry Stegall failed to pass. President Roosevelt was initially opposed to guaranteeing deposits by the federal government, and the American Bankers Association argued that deposit insurance would benefit mismanaged banks. Congress and President Roosevelt eventually agreed to a temporary plan to insure deposits within the Banking Act of 1933. With the passage of the Banking Act of 1935, federal deposit insurance was made permanent.

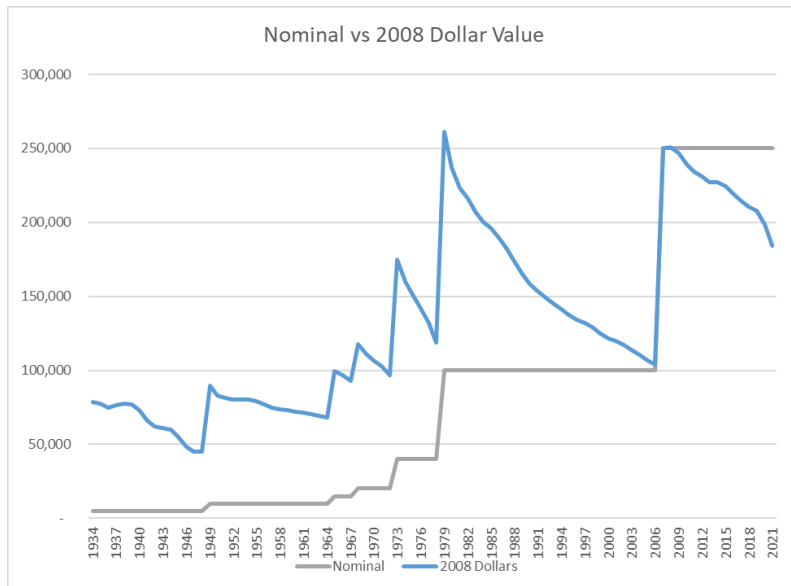
At the onset of federal deposit insurance, the everyday consumer in America often had few financial products compared to today. A consumer likely had their life savings in a deposit account with few other assets. Today consumers have retirement accounts, investment accounts, real estate holdings and often multiple deposit accounts. The distribution of assets has diversified greatly.

In the decades to follow, deposit insurance would face many challenges. Opponents of federal deposit insurance viewed increased levels of deposit insurance as a moral hazard (Bradley, 2000). The term moral hazard originates from the insurance industry, and it is a key attribute of agency theory within the field of finance. Moral hazard within banking and deposits is where a bank or credit union take on more risk because they know their deposits are insured, most often by a federal agency. Within this framework, bank administrators function as agents under agency theory. Deposit insurance may introduce moral hazard by insulating these agents from the consequences of their decisions. While federal agencies maintain an insurance fund and financial institutions do pay premiums to maintain the fund bankers have seen the federal government step in during a crisis. The federal deposit insurance programs can tap into the U.S. Treasury if needed. This extended safety net exasperates the moral hazard challenge for deposits in the United States. Without “skin in the game” by the agents and those who supervise them, there will be a risk that moral hazard moves from a theory to actual harm to millions of account holders.

Deposit Insurance Matures

In the decades that followed, deposit insurance limits were adjusted through various acts in Congress. These changes reflected economic conditions ranging from inflation to concerns about deposit outflows. According to the FDIC, the real value (the value tied to a point in time) of deposit insurance using 2008 dollars has grown from \$80,437 in 1934 to \$183,922 in 2022 (Figure 2). While inflation continues to affect purchasing power, modifications to deposit insurance limits require congressional action.

Figure 2: Value of Deposit Insurance Limits (Nominal & In 2008 Dollars)



Source: FDIC (2023, a)

Changes to the Standard Maximum Deposit Insurance Amount (SMDIA) have occurred seven times, with the most recent change in 2008. Before implementing these changes, the topic of market discipline in banking was often debated. Debates often focus on whether an increase in deposit insurance will alter the behavior of depository institutions leading to increased moral hazard. **During one such debate in 1963, Wright Patman, the then Chairman of the House Banking Committee contended there were too few bank failures. Patman and others viewed increasing deposit insurance as a method to weaken the banking industry.** The argument here is that increasing deposit insurance does not allow for weaker banks to leave the marketplace. Patman stated “. . . I think we should have more bank failures. The record of the last several years of almost no bank failures and, finally, last year, no bank failure at all, is to me a danger signal that we have gone too far in the direction of bank safety” (FDIC, p. 42, 1998).

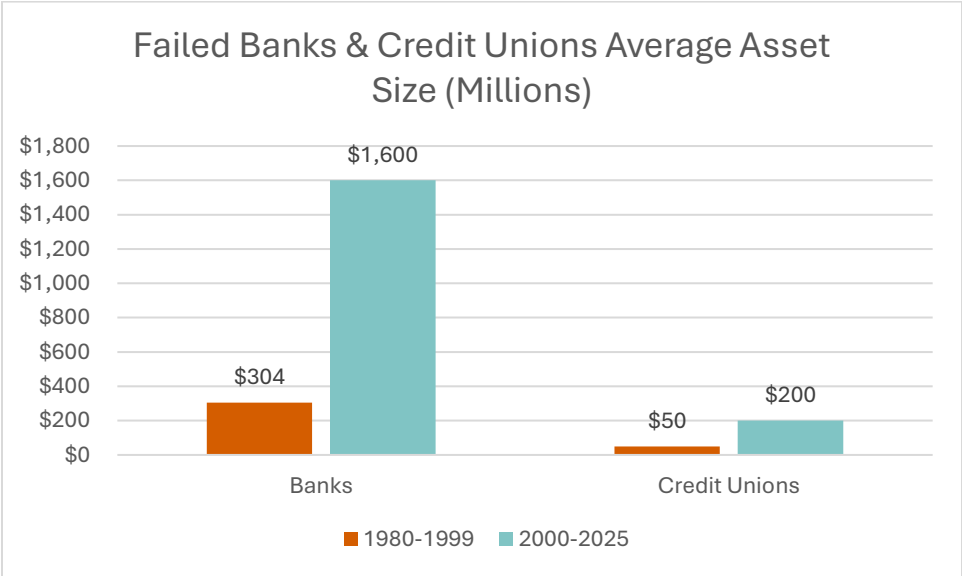
Bank Failures: A Shift Towards Larger Banks

In 2008 the bank failures of Washington Mutual Bank (WaMu) and IndyMac shifted the pattern of bank insolvency in the United States from smaller banks to those with significantly larger asset levels and potential systematic risk to the U.S.

economy. At the time of its closure, WaMu represented the largest failure of an insured depository institution in the history of the FDIC, with \$307 billion in assets and \$188 billion in deposits. Fortunately, its resolution resulted in no cost to the Deposit Insurance Fund. IndyMac, by contrast, incurred nearly \$12 billion in losses to the FDIC insurance fund in 2008.

The credit union industry, with far fewer large asset institutions, has seen 31 credit union failures since 2015, all under \$3 billion in assets. During the same period, 38 banks failed, seven of which had over one billion in assets, representing 99% of the assets of the 38 banks. It is clear from the data that financial risk has grown in the past few decades with the size of bank failures (measured in assets) growing by five times that of credit unions (Figure 3). Credit unions tend to be smaller in asset size allowing for a diversification of risk across geographies and market segments. However, a small number of very large institutions hold a disproportionate share of deposits in the United States. The 50 largest commercial banks and savings institutions hold \$13.2 trillion in deposits representing 73% of all domestic deposits in 2025 (FDIC, n.d., b).

Figure 3: Average Asset Size of Failed Banks and Credit Unions (1980-2025)



Source: NCUA and FDIC

Uninsured Deposits – The New Headache?

According to the Federal Reserve's 2022 Survey of Consumer Finances (SCF) the median households hold \$8,000 in transaction accounts (checking, savings, money market accounts), representing 98.6% U.S. households. The average balance in these accounts was \$62,410. This amount is far higher than the median account balance because households with higher wealth levels skew the average balance higher (Aladangady et al., 2023). For most households and many small businesses (not included in the SCF), current deposit insurance limits provide full coverage of their deposits.

The FDIC in December 2022 reported that 99% of deposit accounts held at FDIC insured banks are under the \$250,000 limit (FDIC, 2023, b). A small number of large-balance accounts, primarily commercial and high-wealth account holders, represent the majority of deposit accounts that exceed coverage thresholds. When balances exceed the deposit insurance limits, these funds are identified as uninsured deposits. As of the third quarter of 2025 42.51% of deposits held in FDIC insured banks are uninsured (FDIC, 2025, a) and the NCUA reported 10.8% of credit unions shares and deposits were uninsured for the same period (NCUA, n.d., a).

Uninsured deposits were a significant contributing factor to the liquidity challenges that led to the failure of Silicon Valley Bank (SVB) and Signature Bank in March 2023. Evidence from the Federal Reserve is that corporate account holders were the primary owners of uninsured accounts (Rose, 2023). These accounts can be quite large and exceed deposit insurance thresholds. These accounts are often used for payroll and to pay transactions for a firm.

Understanding Banks and Credit Unions

Banks or Credit Unions Today

The number of commercial banks and savings institutions that are deposit-taking institutions and members of the FDIC is 4,379 as of September 30, 2025 (FDIC, 2025, a). Additionally, federally insured credit unions numbered 4,331 institutions, with an additional 88 credit unions with private deposit insurance, totaling 4,419 credit unions for the same period. Most banks and credit unions are under \$1 billion in assets, but the banks with more than \$10 billion in assets hold the bulk of deposits in the United States (Table 2). The value of these deposits was \$2,033.7 billion for credit unions (NCUA, 2025) and \$19,749.8 billion for FDIC insured banks at the conclusion of the third-quarter of 2025 (FDIC, 2025, a).

Table 2: Q3 2025 Credit Unions and Banks Landscape

	Less than \$100 Million		\$100 Million to \$1 Billion		\$1 Billion to \$10 Billion		Greater than \$10 Billion	
	Credit Unions	Banks	Credit Unions	Banks	Credit Unions	Banks	Credit Unions	Banks
Number of institutions	2,553	611	1,319	2,719	438	895	21	154
Assets	\$76.1	\$38.0	\$28.6	\$1,041.5	\$71.4	\$2,505.8	\$38.3	\$21,527.9
Deposits	\$65.0	\$31.3	\$378.5	\$881.3	\$1,077.3	\$2,085.0	\$513.0	\$16,752.3

Source: FDIC and NCUA Q3 2025 Quarterly Reports

Banks are for-profit entities where the shareholders are the beneficiaries of distributed profits. Credit unions operate as not-for-profit entities. Banks and credit unions share many similar attributes in that many of the retail financial products are essentially the same, such as deposit accounts and various lending products. Credit union membership requires an initial deposit into a primary share account to establish and maintain membership. This share account is a deposit account, often a savings account, which entitles the member to vote on items such as the election of volunteer board members. Profits from the operations of a bank flow back to the shareholders, and credit unions return dividends to the members via their share accounts.

Every credit union has a “common bond” (NCUA, n.d., b) that defines the criteria for defining their member base. The members of credit unions are both owners and customers. Boards are elected by members on a one-member-one-vote basis. This form of governance provides a level of monitoring not found in banks. With a cooperative model, the accountability structure of credit unions provides an additional level of monitoring unique to credit unions (Van Rijn, 2022).

Banks are accountable first to shareholders—who may not be customers—and customer influence on financial governance is less direct and often witnessed through market movements. In agency theory, a principal–agent relationship is one where one party (the principal) delegates decision-making authority to another party (the agent) to act on the principal’s behalf. Shareholders are principals while bank management are agents within banking. Higher levels of deposit insurance may create an environment that alters the behavior of bank management (agents) to consider risks to grow financial returns knowing that the deposits are insured. This behavior is the crux of moral hazard argument regarding higher deposit insurance levels in banking.

Monitoring the agent (i.e., bank management) mostly occurs through bank examinations but deposit account holders have little incentive to monitor the actions of bankers or credit union managers because their deposits are insured regardless of institution behavior. In contrast to the structure of banks, credit unions members (deposit account holders) are the owners of the credit union and can have some level of influence upon the management of their credit union. There is evidence of monitoring or discipline present through credit union membership (Gómez-Biscarri et al., 2022). This form of discipline is unique to credit unions compared to where the principals (credit union members) exert a level of oversight as a complement to regulatory oversight.

Deposit insurance does not protect against the insolvency or bankruptcy of a bank or credit union. Even with bank examinations, banks and credit unions can end up in conservatorship. Conservatorship is a legal status in which the regulator assumes temporary control and management of a troubled insured depository institution to stabilize operations, preserve its assets, and protect depositors while seeking to restore the institution to sound condition or prepare it for an orderly

resolution. This contrasts with receivership when a depository institution is closed and the regulator liquidates or sells its assets. Conservatorship is a regulatory process in which a government agency seeks to stabilize operations, protect depositors, and pursue resolution – whether through recapitalization, merger, or liquidation. Banks can fail due to conducting unsound investments or holding higher risk assets. Deposit insurance may mitigate a run on a bank or credit union, but it is not a guarantee against bank or credit union failures. From 1934 to 2025, there were 3,495 bank failures, and while “no depositor has lost a penny of FDIC-insured funds,” according to the FDIC, thousands of banks and credit unions have faced closure by regulators. Hogan and Luther (2016) suggest there can be disadvantages to deposit insurance, which can trigger moral hazard, and higher levels of risk may occur when deposits are guaranteed.

Comparing Bank & Credit Union Failures

Dopico and Wilcox (2019) have extensively studied the failures of banks and credit unions. During the period of 1971–2018, 3,192 credit unions, and 1,977 banks failed. This period is marked by the onset of federal insurance for credit union shares in 1971. The losses incurred by the deposit funds were \$3.1B for the NCUSIF, and \$154B for the FDIC, expressed in 2018 dollars and adjusted for inflation.

In 2023, in the span of two months, Silicon Valley Bank, Signature Bank, and First Republic Bank were closed by their respective regulators, amounting to over \$34 billion in deposit insurance losses (Table 3). In 2023 there were a total of five bank failures, but these three banks represent 99.9% of the estimated losses during 2023. These banks were examined by their designated regulators and maintained deposit insurance. Since 2018, these three banks accounted for 97% of the deposit losses among the 17 banks that failed during this period. Credit unions experienced 14 failures in the same period, with the estimated cost of resolution totaling \$60.7 million, representing just 0.02% of losses from three large failures in 2023.

Table 3: Select Bank Failures in 2023 (In thousands)

	Estimated Loss	Total Deposits	Total Assets
Silicon Valley Bank	\$ 18,959,624	\$ 175,378,000	\$ 209,026,000
Signature Bank	\$ -	\$ 88,612,911	\$ 110,363,650
First Republic Bank	\$ 15,753,256	\$ 176,436,706	\$ 212,638,872
Totals	\$ 34,712,880	\$ 440,427,617	\$ 532,028,522

Source: FDIC BankFind Suite, Bank Failures & Assistance Data (FDIC, n.d., a)

Commercial vs. Retail Accounts

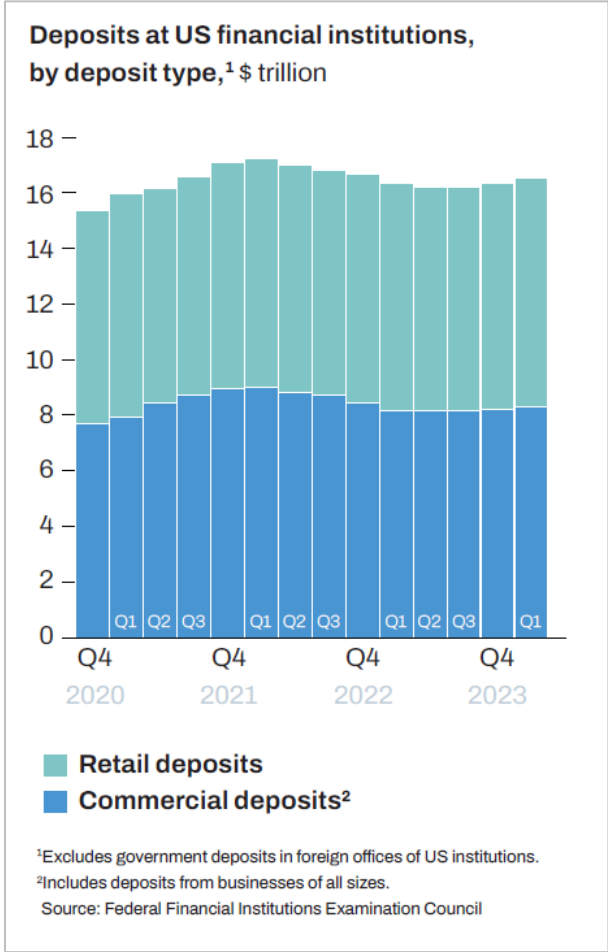
Twelve ownership categories exist for FDIC insured accounts, with business/organization accounts and government accounts (public unit accounts) as two of the twelve account types (FDIC, 2024, b). While the total amount of deposits is measured through regulatory agencies such as the FDIC and NCUA, there is no standardized reporting method that categorizes deposits into retail versus commercial accounts.

In May 2023, the Federal Reserve published a review of its supervision of SVB. It was stated that venture capital backed companies accounted for more than half of their total deposits, and overall, 94% of these deposits were uninsured at the conclusion of 2022. As stated earlier in this report, most deposit account holders have balances far below the \$250,000 insured limit, making SVB an outlier in the banking industry. Another risk factor at play with SVB was the high concentration of deposits in a particular industry. SVB was highly concentrated within an interconnected ecosystem of venture-capital-backed technology and life science firms.

Using figures from the American Bankers Association and the Federal Reserve as of June 2024, 43% of deposits in domestically chartered banks are held by businesses. McKinsey sizes the commercial deposit base in the United States close to 50% of all deposits (Figure 4). Additionally, the largest banks hold nearly 80% of all deposits in the United States (Devasheesh et al.,2024). These commercial accounts can surpass the deposit insurance limit. Many of the

uninsured balances at SVB were with commercial account holders. In the weeks that followed the closure of SVB, many commercial account holders moved funds to what they considered safer bank alternatives. The outflow of deposits was acutely felt at super-regional banks (Luck et al., 2023).

Figure 4: Distribution of Commercial and Retail Deposits



Source: McKinsey (Devasheesh et al.,2024)

Since the bank failures of 2023, concerns have arisen regarding uninsured deposits tied to business accounts. There has been increased discussion regarding insured deposit limits. In 2025, Senator Hagerty (R-TN) introduced the Main Street Depositor Protection Act to increase FDIC coverage to \$10 million for non-interest-bearing transaction accounts. Raising deposit insurance limits on these types of accounts would increase the level of insured deposits. One question that policy

makers and regulators must address is if these new limits will increase the risk of moral hazard.

Many of the business accounts in depository institutions are used for payroll, payments for business operations, and cash reserves. The profile of each bank can vary; some banks may have a much larger allocation of deposits tied to non-retail accounts while other commercial banks can have a higher allocation of deposits aligned to retail account holders. Credit unions tend to have deposits aligned to retail accounts due to the field of membership and focus of these institutions.

Deposit Insurance Theory & Moral Hazard

Scholars in the field of banking often point to Diamond and Dybvig (1983) as a theoretical foundation for government deposit insurance for demand deposits. The framework of deposit insurance provides an equilibrium or antidote for depositors' concerns that they will not be able to withdraw their funds. If the account holders believe deposit insurance will protect their money, in the event of insolvency, they may not rush to withdraw funds. There essentially is no incentive to withdraw their funds and create a run on the bank. In return, the bank would not need to sell assets to raise liquidity (Anginer & Demirguc-Kunt, 2018).

Essential to the Diamond-Dybvig model is that the insurance is deemed credible by the depositors. **When doubt enters the psychology of the account holders, they will line up to move their deposits. However, the model posits that when the conditions that facilitate a bank run are removed, the economic cost of deposit insurance is zero. If the account holders do not impose a run on the institution, no cost would be incurred.**

While the Diamond-Dybvig model demonstrates that credible insurance can eliminate bank runs, it also creates the conditions under which moral hazard can emerge. The role of deposit insurance and the method in which it is implemented, while it brings confidence to the market, can also distort the behavior of bank managers and depositors. This behavior results in the issue of moral hazard. First, deposit insurance (possibly excessive deposit insurance) gives insured banks or credit unions an incentive to take on riskier investments. Second, since depositors are protected when a bank or credit union fails, their incentive to monitor the

financial condition of their bank is significantly reduced. Deposit insurance is not the real challenge; it is the increase in value beyond a reasonable level. Anginer, Demirguc-Kunt, and Zhu (2014) examine the effect of deposit insurance on bank and systemic risk before and after the global financial crisis. They found that generous deposit insurance schemes increase bank risk and reduce systemic stability in non-crisis years. A significant factor in higher levels of deposit insurance is the reduction in market discipline, which can lead to greater risk-taking by banks. Market discipline refers to the pressure that depositors, creditors, and investors exert on financial institutions through their decisions to move funds, demand higher returns, or withdraw business when they perceive elevated risk, effectively serving as a market-based check on excessive risk-taking. The benefit of deposit insurance provides depositors with an incentive to keep their money with smaller banks and an improved level of diversification. The alternative would shift deposits to banks that are too-big-to-fail, creating concentrated risk in the market. An increase in deposit insurance beyond a necessary level may lead to increased moral hazard by bank managers.

Safety and Soundness

Regulatory Oversight

After the failures of SVB, Signature Bank, and First Republic Bank the Federal Reserve concluded that a highly concentrated client base in related industry sectors and a significant dependence on uninsured deposits exposed SVB to changes in economic conditions including interest rate risk (Office of Inspector General, 2023). The postmortem analysis of the major bank failures of 2023 highlighted the risks associated with uninsured deposits. **The buildup of long-duration fixed-rate securities funded by highly runnable deposits, combined with the expectations of a federal rescue (if needed), creates fertile ground for moral hazard to emerge.** This risk is compounded by this with a supervisory model used by both the FDIC or NCUA that extends beyond pure balance-sheet/safety-and-soundness to include management practices, governance and consumer compliance requirements.

The 8,700-plus banks and credit unions in the United States are subject to oversight by regulatory and supervisory agencies. To ensure the safety and soundness of banks these agencies such as the FDIC, OCC, the Federal Reserve, NCUA and state regulatory agencies supervise America's banks and credit unions. These agencies are tasked with many supervisory priorities including ensuring adequate capital and liquidity standards are maintained within these financial institutions. These standards and additional requirements are prescribed by each agency by "regulation or guideline" as stated in Section 39 of the Federal Deposit Insurance Act. The NCUA is mandated by the Federal Credit Union Act to ensure federally insured credit unions operate safely, using supervisory tools similar to other regulators.

Measuring Safety and Soundness

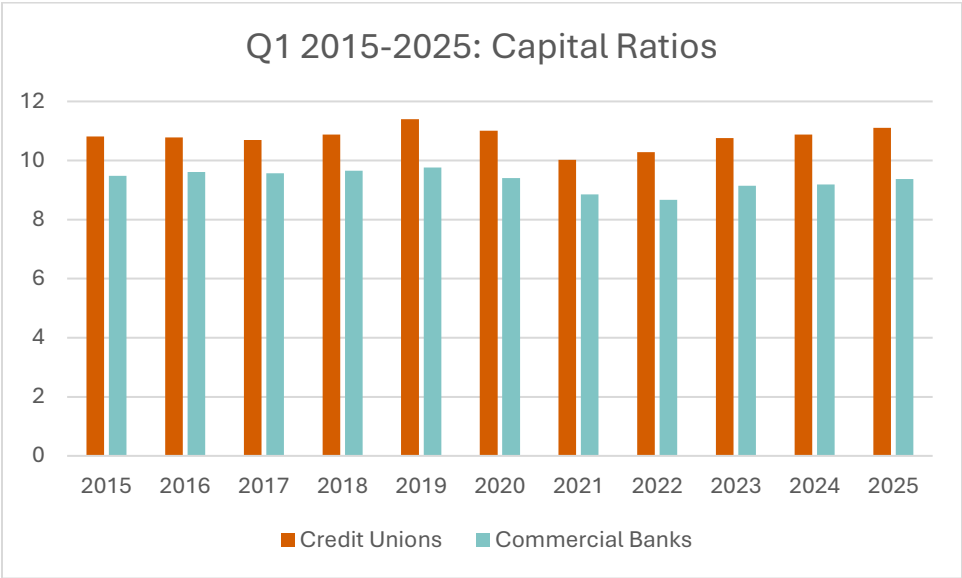
Measuring capital within a banking institution is one of the primary components of safety and soundness. Credit unions are evaluated on their net worth ratio (net worth/total assets) where net worth represents retained earnings. These retained earnings are the total earnings the credit union has accumulated but has not distributed to their members. A comparable ratio for commercial banks is the Tier 1

leverage ratio (Tier 1 capital/average total consolidated assets) or often referred to as core capital (leverage) on FDIC reports. Both ratios are used by regulators to determine Prompt Correction Action (PCA) action when evaluating safety and soundness for both commercial banks and credit unions.

The standard used in credit unions includes the net worth ratio where net worth is divided by total assets. This is the primary statutory capital measure for federally insured credit unions. A net worth ratio of 7% or higher is classified as “well capitalized,” while 6%–7% is classified as “adequately capitalized.” For U.S. banks, Tier 1 Risk-Based Capital (RBC) is 6% and Tier 1 Leverage Ratio is the regulatory metric that measures a bank's core capital (Tier 1) against its total, unweighted on and off-balance sheet exposure. The minimum leverage ratio is 4% with well-capitalized at 5%.

Using first quarter call reports from 2015 to 2025 the difference in net worth ratios for credit unions compared to the FDIC's measurement of the core capital (leverage) ratio consistently shows credit unions with higher values. Since 2021 there has been a difference of 113 and 174 basis points with the spread increasing by 49% between 2021 and 2025 (Figure 5). This has been driven by accelerated growth, improved earnings and slower asset growth, which provides a greater cushion against potential losses. Most credit unions are considered non-complex and take deliberate steps to manage their balance sheet and interest rate risk. With a focus on liquidity and higher capital buffers, credit unions demonstrate a stronger posture of safety and soundness relative to commercial banks (Wilary Winn, 2025).

Figure 5: Tier 1 Capital Ratio (Commercial Banks) vs. Net Worth Ratio (Credit Unions)



Source: FDIC and NCUA Q1 Quarterly Data Reports 2015-2025

Another measure for safety and soundness within academic literature is the z-score. A higher z-score indicates greater financial stability and a lower probability of insolvency. This measure incorporates return on assets (ROA), defined as net income divided by average total assets. The z-score indicates how many standard deviations a bank’s return would need to drop, assuming normally distributed returns, before its equity is exhausted. Banks often post higher ROA than credit unions, frequently by 20 or more basis points, reflecting banks’ profit-maximization orientation compared to credit unions’ member-service orientation. Credit unions return earnings to their members while banks distribute earnings to shareholders.

Hesse and Čihák (2007) in an International Monetary Fund study of cooperative banks across 29 other major economies in North America (including the United States of America), Europe and Asia. The study found that cooperative banks have higher z-scores than commercial banks and, to a lesser degree, savings banks, indicating greater stability. Another study comparing credit unions to commercial banks found that **credit unions consistently demonstrate lower risk than banks on measures of safety and soundness** (Naaman et al., 2021).

The Tax Burden of Deposit Insurance

The Cost of Deposit Insurance Over Time

The Diamond and Dybvig model for deposit insurance has been viewed by many scholars of deposit insurance as a tax-backed promise that prevents runs. Thus, no payouts are ever needed, and insurance is effectively free. This logic is very appealing. In this model, the government promises to protect deposits up to an insured limit, to prevent bank runs altogether. No payouts are needed, and insurance appears costless in equilibrium. However, in reality, deposit insurance has costs for banks, credit unions, and account holders who are also taxpayers.

Looking back to past deposit insurance events, Curry and Shibut (2000) illustrated that the savings and loan (S&L) crisis of the 1980s cost taxpayers \$153 billion. The S&L crisis imposed very high direct fiscal costs that have been largely forgotten by today's banking professionals. It was taxpayers, rather than the thrift industry, that ultimately bore most of the cost of resolving the losses from this crisis.

The FDIC's 2023 Annual Report states that five bank failures in 2023 resulted in an estimated loss of \$40.4 billion loss to the Deposit Insurance Fund (DIF). By law, DIF losses are to be recovered from the banking industry, not from general tax revenues. The FDIC, in accordance with its policies, imposed a special assessment on banks in response to these bank failures. The 2023 assessment applied only to banks with more than \$5 billion in estimated uninsured deposits as of December 31, 2022.

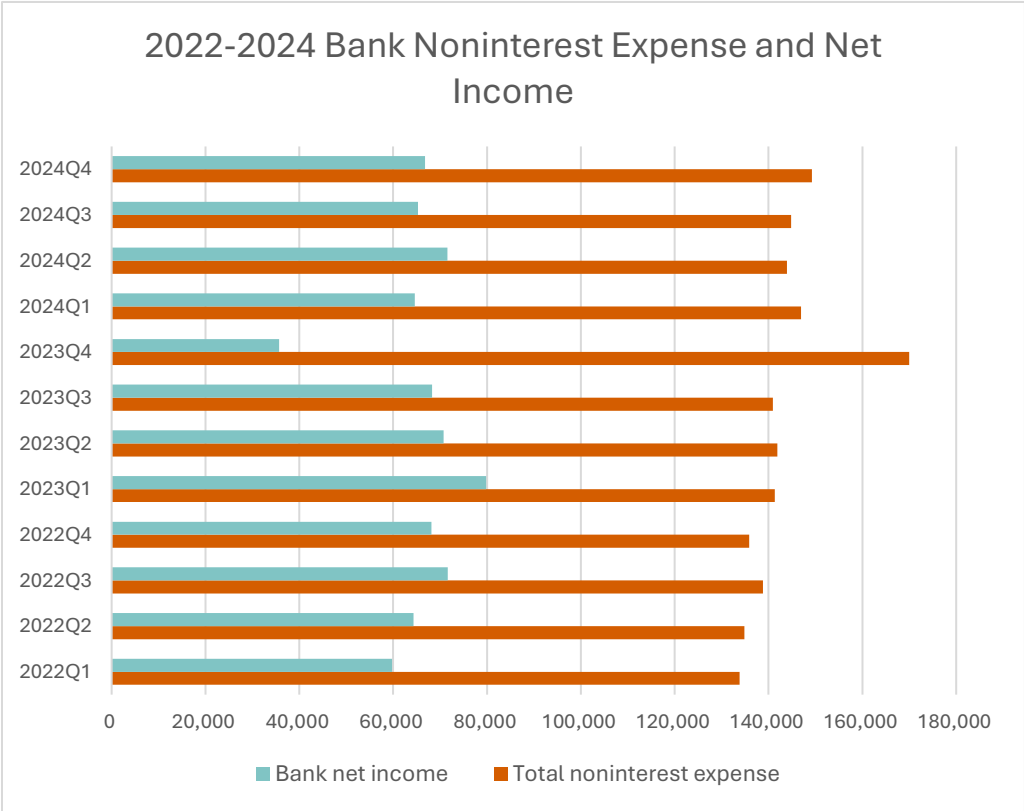
Account Holders are Taxpayers

Higher FDIC assessments are an operating cost for banks and trickle down to customers (taxpayers) through lower deposit rates or higher loan fees as banks adjust to cover higher expenses. Thus, taxpayers are impacted because the cost of deposit insurance impacts the rates and fees that influence bank profitability. The FDIC issued a special assessment following the 2023 bank failures that resulted in an annual rate of approximately 13.4 basis points. The special assessment was expected to result in an "on average, a one-quarter reduction in income of 20.4% for banks subject to the special assessment" (FDIC, 2023, c). When costs increase,

banks will look to reducing their expenses elsewhere, such as reducing interest paid on deposits or increasing the cost of lending to borrowers.

In Q4 2023, a nearly 48% drop in net income occurred at large banks compared to the same period in 2022. This can be traced to non-recurring, non-interest expenses, which include the special assessment associated with losses incurred by the DIF (FDIC, 2024, a). Bank of America’s special assessment was \$2.1 billion, and JPMorgan Chase’s was \$2.9 billion, with both banks stating the assessment was a major contributor to their drop in quarterly net income. The impact on the banking sector was quite noticeable when compared to the financial results in the quarter before and after recognition of this assessment (Figure 6).

Figure 6: Comparing Noninterest Expense & Net Income in Commercial Banks



Source: FDIC Charts & Data (FDIC, 2025, b)

In 2025 proposals to increase deposit insurance for non-interest bearing, business deposit accounts have been introduced in Congress. The Taxpayer Protection Alliance (TPA) has studied the potential impact of raising deposit insurance for

these non-interest bearing deposit accounts. The TPA estimates that raising the FDIC insurance limit for these accounts up to \$25 million dollars in deposits (initial proposal in Congress) would require a \$30.1 billion one-time special assessment on banks to restore the DIF to its statutory minimum, plus an additional \$3 billion annually in higher ongoing premiums (Taxpayer Protection Alliance, 2025).

Tracing Regulatory Costs in Banking

The cost transfer to customers/taxpayers can be challenging to detect in complex banking organizations. A European bank study demonstrated empirical evidence that banks incorporate regulatory reporting costs into loan pricing by raising interest rates on loans (Corell & Papouts, 2024). In the United States, a study of state-level taxes banks incur are partially passed on to borrowers, resulting in higher borrowing costs (Kang et al., 2021). Banks will operate like other industries; when expenses rise, there is only so much expense that can be absorbed before there is an impact on pricing. After the Durbin Amendment was implemented as Regulation II for the reduction in interchange for debit card interchange fees, many banks increased minimum monthly fees or added monthly fees along with increased minimum requirements to obtain “free checking”. These examples illustrate that increased cost to banking operations often flow through to the customers.

The existing level of deposit insurance already covers approximately 99% of account holders, with most fully insured and well below the current coverage limit. Should increasing deposit insurance be a cost passed on to all consumers for a small number of account holders? These considerations raise the question of whether alternative deposit insurance approaches offer a viable alternative to expanded federal coverage. The leading example would be the use of private deposit insurance found within the credit union industry.

The Private Deposit Insurance Alternative

Private Deposit Insurance Today

Alternatives to federally operated deposit insurance existed long before the establishment of the FDIC. State-based, private deposit insurance predates the Civil War, with the first program in New York State in 1829. Today, the only state-based fund operates in Massachusetts. The Massachusetts Depositors Insurance Fund is a private, industry-sponsored deposit insurer that provides coverage above FDIC limits for certain Massachusetts-chartered banks.

Within credit unions, American Share Insurance (ASI) provides an alternative to obtaining deposit insurance from the NCUA. ASI is a cooperative deposit insurance model funded by the credit unions it insures. ASI provides deposit insurance in 10 states to only state-chartered credit unions. Credit unions that obtain deposit insurance from ASI must adhere to ASI's standards for risk management. The loss-absorbing capacity of ASI (capital plus loss reserves) has been 1.75% of insured shares, compared to 1.31% for the NCUA. ASI does not have a single statutory "target" reserve ratio like the FDIC or NCUA. However, insured credit unions in the NCUA's share insurance fund (NCUSIF) must maintain a 1% capitalization deposit with the NCUSIF.

ASI has demonstrated that it can effectively provide private deposit insurance to its member credit unions. At the end of 2025, there were 90 privately insured credit unions in ASI's program. All but six of these credit unions had assets under \$1 billion, and the remaining credit unions were under \$2 billion. The ASI approach is to underwrite credit unions, but not all are accepted. ASI minimizes risk in the insurance pool by monitoring its insured credit unions and enhancing their risk management through maintaining geographic diversification across the 10 states in which it operates.

The ASI framework stands in stark difference to the private insurance approach during the early late 1800's to early 1900's. Many historical private insurance schemes (e.g., Mississippi, Ohio, Maryland, Rhode Island) collapsed when one or two large banks failed. "However, a careful analysis of their experience reveals that their lack of success largely resulted from design flaws within the insurance

systems or uncorrected yet widespread misconduct in the management of the insured banks” (Skinner, p. 484, 2024). Today’s regulatory and supervisory environment is starkly different from period of these state insurance programs. Today’s banks and credit unions are supervised with increased transparency and mandatory reporting that did not exist at the time of the state programs cited earlier.

One of the last state-chartered private deposit funds was operated by the Rhode Island Share and Deposit Indemnity Corporation (RISDIC) which closed in January 1991. The RISDC was part of a resurgence of state-chartered deposits insurance programs that began in the 1950’s. Many of the insured institutions struggled with profitability and oversight in the form of effective supervision and some of these issues were made worse by fraud (Todd, 1994). State plans headed the lessons learned and encouraged their members to apply for deposit insurance through the FDIC. However, the RISCI took a different approach. “Rhode Island officials, on the other hand, ignored the disturbing signs from Ohio and Maryland and even raised RISDIC's insured deposit limit to \$500,000 (with unlimited coverage on certain accounts) in late 1985” (Todd, p. 2, 1994).

RISDIC's board of directors failed to review reports prepared by examiners and did not operate an audit committee to supervise the work of their external auditing firm. The board of directors was composed of 15 members but 12 represented the insured institutions. The RISDC demise occurred as two of the insured institutions depleted the insurance funds in late 1990 (Todd, 1994). This stands in contrast to the framework at ASI. A strong and transparent financial model. ASI ensures there is diversification in lending to avoid concentrated risks and has limited exposure to the geographic concentration that past state funds could not avoid. Both the Ohio Department of Insurance and the Ohio Department of Commerce oversee ASI along with the state credit union regulators for each member credit union. Additionally, ASI has access to liquidity from the Federal Home Loan Bank and other funding sources if required. ASI’s approach starts with selecting a credit union rather than a state model where acceptance of the fund was not gated. Improved capital requirements, geographic diversification of member institutions

and active oversight allow the ASI framework to be more resilient and sustainable than private insurance models of the past.

The financial design of these past private deposit schemes is different than the model used today by ASI. Past insurance schemes lacked the ability to restore the fund's balances through assessments of other banks or a process to recapitalize an institution. A clear example of this effective recapitalization was ASI's response to Silver State Schools Credit Union in Nevada. Silver State was not taken into conservatorship by their state regulator and allowed ASI to recapitalize the credit union. Compared to NCUA's common practice of taking a troubled credit union into conservatorship.

Private Deposit Insurance Clients

ASI clients are measured on the same financial ratios as the broader credit union industry. While they are not subject to NCUA examinations, all are examined and supervised by their respective state supervisory authorities; and they operate as well as or better than the larger credit union population. Using data from the NCUA June 2025 call report, the weighted average net worth ratio for ASI clients was 11.6%, compared to 11.1% for those that were federally insured. A 50 basis points difference, while it may appear small on the surface, is generally considered a significant difference in banking. According to the NCUA net worth not only "protects against uncertainties but also provides a foundation for the long-term viability of the credit union" (NCUA, 2006).

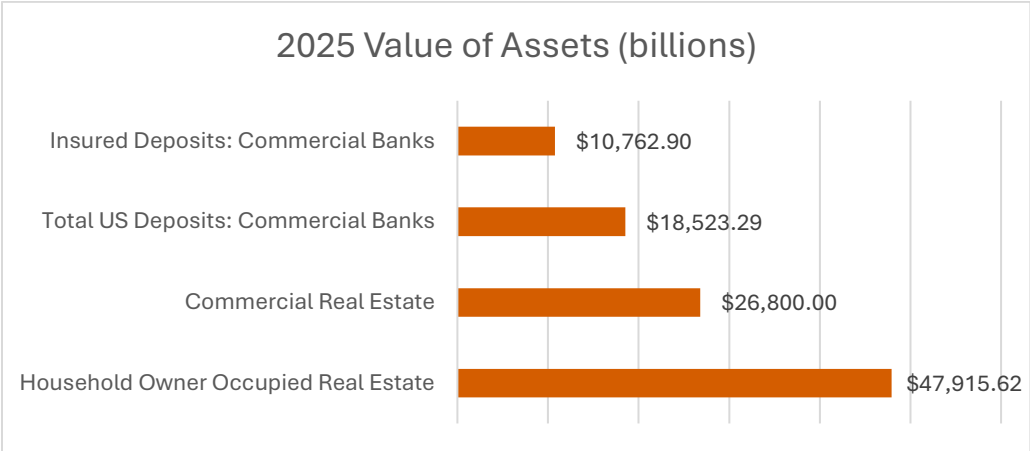
The operating model for private deposit insurance is an alternative to consider, as clients within the ASI model are focused on financial performance, rather than compliance with federal regulations. Examiners at both the state and federal levels have no financial stake in the decisions. ASI is a fiduciary and seeks to minimize losses, with a singular focus compared to the NCUA. While the nation may feel comforted by having the U.S. Treasury as a backstop for deposit insurance, the private model offers an alternative where financial oversight is the sole focus, which can lead to reduced moral hazard behavior.

Alan Greenspan stated, "At some point I would like to see a system with no federal deposit insurance at all" (Greenspan, 1985). Mr. Greenspan's sentiments

may be reflected in the credit union movement, where private deposit insurance is flourishing and offering a credible alternative to federally operated insurance schemes. This sentiment is shared by a CEO of a privately insured credit union in the Midwest. This executive noted that examinations provide a solid infrastructure for financial management with a mission to see clients succeed in contrast to federal examiners who are often perceived as seeking to find errors.

With private deposit insurance currently available at 90 credit unions, this alternative approach is not commonly known to Americans. For nearly 100 years federally provided deposit insurance has been what many Americans have grown accustomed to. Some might question if private entities should insure an asset of this scale? It turns out that insured deposits are valued far less than other asset classes such as owner occupied and commercial real estate (Figure 7). In 2025 households occupied real estate was valued at nearly 4.5 times more than insured deposits in the United States. Apart from flood insurance, American obtain insurance for their real estate holdings through the private market. When commercial and owner-occupied real estate are combined it's just over four times the value of all deposits in commercial banks (insured and uninsured).

Figure 7: Cumulative Value of Select Insured Assets Classes



Source: FRED (QBPBSTLKDPDOFFDPESTIDP, DPSACBW027SBOG, HOOREVLMHMV) and The Real Estate Roundtable (2025)

Insuring Deposits Over Federal Limits

Following the bank failures of 2023, renewed attention to adjusting deposit insurance limits has emerged. In the political arena, legislators have been referring to changes such as deposit insurance reform. However, is the current level of deposit insurance in need of reform? Within the 119th Congress (2025-2026), the *Main Street Depositor Protection Act* (S. 2999) seeks to expand FDIC insurance coverage for noninterest-bearing transaction accounts (NIBTAs) up to \$10 million per account holder. These accounts may include payroll and operating accounts for businesses at banks with assets under \$250 billion. The bill includes a 10-year phase-in period for full implementation that allows banks with \$10 billion or less in assets to be exempt from special assessments during that period. While expansion of deposit insurance may sound like an appropriate antidote to keep deposits from fleeing smaller institutions in a flight for safety, it may not prevent bank runs. “If even a small portion of deposits are left uninsured, some depositors will have an incentive to run; when they do, their actions are likely to spark panic among other depositors even if those other depositors are insured” (Skinner, p. 481, 2024).

Given the limitations of FDIC and NCUA call report data, there is no reliable method to determine the number of accounts that fit this proposed \$10 million insurance limit for NIBTAs. Individual and business accounts are reported together when examining uninsured accounts. While it is known that 99% of accounts are insured under the current \$250,000 deposit limit for an individual account holder or \$500,000 for a joint account, the data is not available to determine the distribution of account balances above the current deposit limit.

Uninsured Deposits Today

Uninsured deposits are what might be keeping some legislators and regulators up at night. The larger banks (\$100 billion +) hold larger percentages of uninsured deposits than smaller banks. The concern is institutional liquidity. The assumption is that account holders with large amounts of uninsured deposits are more likely to move their funds, and if a bank, especially a smaller bank, were to see large outflows, the risk to ensure adequate liquidity would increase. Credit unions and many community banks hold mostly deposits by retail customers, and these deposits are more stable than business and wholesale deposit account holders.

Private deposit insurance and specifically private excess deposit insurance is a worthy alternative for policy makers to consider. It provides a method for account holders who wish to protect their deposits over federal limits with insurance protection. Excess deposit insurance is available to private deposit credit unions through ESI, a subsidiary company to ASI. Christina Skinner stated, “there is no inherent reason why the federal government should provide all the insurance necessary to reduce the social costs that arise from the manifestation of these individual incentives” (Skinner, p. 481, 2024).

Insurance Lessons Learned from Agriculture

In agriculture, crop insurance is a federal insurance program administered by private insurance companies. The federal government sets terms and reinsures the risk. The coverage limits are not 100% but are often between 50%-85% coverage levels. Farmers seeking higher levels of coverage can purchase additional coverage, such as the Enhanced Coverage Option (ECO), from private insurance companies. ECO can be obtained up to 95%. This framework provides an important lesson in moral hazard. The enhanced coverage requires “skin in the game.”

The goal of crop insurance is not to provide 100% coverage but provide additional insurance over the federal program. If an account holder wishes to enhance their deposit insurance, a private offering-like the ECO model in agriculture-could be obtained from private insurers. If large deposit account holders want to insure their balances over the existing balance limits, allow the private market to serve this need rather than imposing more costs to banks through higher deposit insurance premiums. This form of insurance is available through the Excess Share Insurance (ESI) program operated by ASI’s subsidiary organization, ESI.

Stablecoins

The GENIUS Act, passed in July 2025, is a U.S. law that creates a regulatory framework for banks to issue payment stablecoins through approved subsidiaries while explicitly prohibiting FDIC deposit insurance from applying directly to those stablecoins. A stablecoin is typically a digital token issued by a nonbank (or special-purpose entity) that is pegged to a currency like the U.S. dollar and backed by a pool of reserve assets such as Treasury bills or bank deposits as reserves. As

of February 2026, the NCUA proposed a rule prohibiting federal credit unions from issuing stablecoins directly on their own balance sheets. Instead, they must operate through NCUA-licensed subsidiaries. These stablecoins thus are not covered by the National Credit Union Share Insurance.

In the case of the issuing stablecoins, deposit insurance does not protect the stablecoin account holder. While there may be underlying bank deposits that may be insured in the name of the issuer, this is not insurance for the individual stablecoin account holder. There has been a discussion if pass-through insurance could be applied to stablecoins. The concept of “passes through” is where a fiduciary or intermediary account holder (such as an agent, custodian, broker, payroll processor, or fintech platform) obtains deposit insurance up to the limit defined by the FDIC.

Pass-through insurance, a feature present since the FDIC was created, allows funds placed at a bank through an intermediary on a customer’s behalf. FDIC Chairman Travis Hill in March 2026 stated stablecoins are not eligible for “pass-through” deposit insurance (Hill, 2026). Since stablecoins are not viewed as core deposits, these accounts lack protection that many consumers have relied upon with their deposit accounts. Financial services innovation using private deposit insurance could be a solution to improve the adoption of stablecoins. Insurance innovation may include giving the account holder the choice to include an insurance option with stablecoin holdings. A future design could be viewed as an optional feature where the issuer bundles private insurance and the cost burden is limited to those with insurance only. Allowing the free market to innovate and avoid taxpayer costs is an opportunity for existing and new entrants to create a robust private deposit insurance ecosystem.

Conclusion

The evidence in this report suggests that expanding federal deposit insurance limits is a blunt tool and potentially costly response to concerns about uninsured balances, particularly business and wholesale deposits, and may weaken market discipline while amplifying moral hazard. Higher deposit insurance limits can lead to conditions where potential taxpayer costs or industry-funded expenses support banking failures. These costs ultimately flow through to taxpayers in the form of costs of banking products (i.e., rates and fees). Given that current limits already fully insure the vast majority of depositors, raising federal coverage across the board risks increasing moral hazard and creating an expectation that all deposits regardless of size, will be protected.

Private deposit insurance—demonstrated by the American Share Insurance (ASI) model—offers a more targeted and free-market approach to address emerging deposit insurance needs, including higher coverage demands from large deposit account holders. ASI’s rigorous financial oversight, selective underwriting and capacity to support recapitalization merits consideration for broader application within credit unions and possible expansion to commercial banks. The ability to provide private coverage over federal deposit limits or for emerging banking capabilities such as stablecoins are two areas the private sector may offer a more efficient and effective solution than the federal government.

For policymakers, the implication is clear: before adopting broad-based increases in federal deposit insurance limits, serious evaluation of private and private/federal (a hybrid approach) to deposit insurance should be considered. Such models can strengthen market discipline among depository institutions and better align the costs of deposit insurance with those who benefit most from additional protection.

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What is ASI

American Share Insurance (ASI) is a credit union-owned, mutual share insurance fund that provides deposit insurance to state-chartered credit unions across 10 states.

About ASI

Founded in 1974, ASI currently protects more than \$20 billion in member deposits for over 1.25 million credit union members nationwide. ASI-insured institutions operate under a dual oversight framework, with state regulators supervising credit unions and ASI providing independent risk monitoring, underwriting, and ongoing oversight. Since inception, no member has ever lost money in an ASI-insured account, reflecting a longstanding commitment to safety, soundness, and the protection of member deposits.



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