# AMERICAN SHARE INSURANCE: THE SOLE SURVIVING PRIVATE DEPOSIT INSURER IN THE UNITED STATES

Stephanie O. Crofton
*High Point University*

Luis G. Dopico
*Macrometrix*

James A. Wilcox
*University of California, Berkeley*

*Founded in 1974, American Share Insurance (ASI) is an insurer for deposits in credit unions and it is the sole surviving private primary deposit insurer in the US. We assess reasons why ASI survived when numerous other deposit insurance systems did not. These reasons include ASI's policy of insuring only credit unions, its geographic diversification, its efforts to shed the quasi-governmental nature of other nonfederal deposit insurers, its covering only stronger depositories, its ability to draw funding from stronger insured institutions as needed, and its use of incentives for improved performance among its insured institutions. While the severity of the effects of the housing, financial, and economic crises on depositories and their insurers is yet to become fully clear, ASI's performance up to the Summer of 2009 points to a set of practices that could help buttress other government and private deposit insurers in the US and abroad.*

Nearly as many deposit insurance systems have closed as have ever opened in the United States. Of all the systems that arose in the United States since the mid-1800s, only two federal systems, the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Share Insurance Fund (NCUSIF), and one private system, American Share Insurance (ASI),[1] remain in existence as providers of primary deposit insurance. The FDIC arose during the third of four waves of experiments with deposit insurance in the United States. The NCUSIF and ASI arose in the fourth wave. The case of ASI is particularly interesting in that, although numerous nonfederal systems and even one federal deposit insurance system failed, ASI is the sole surviving private primary deposit insurer in the United States.

We begin by delineating and describing briefly the four waves of deposit insurance systems. We then discuss the numerous failures of single-state systems of deposit insurance and how those failures contributed to the rise of federal systems. We describe how the remaining private system, ASI, incorporated many of the salient features of private nondeposit insurance companies and also learned from the prior failures of deposit insurance systems. We then evaluate how ASI's business strategies reduced the organization's risks, thereby facilitating its long-term survival. Those strategies chiefly included the insuring of only credit unions, geographic diversification, efforts to shed the quasi-governmental nature of other nonfederal deposit insurers, the practice of covering only stronger depositories, the ability to draw funding from stronger insured institutions as needed, and finally, ASI's use of incentives for improved performance among its insured institutions. Thus, ASI apparently has provided a viable, private-sector alternative to federal insurance for some credit unions.

The history and variety of deposit insurance experiments in the United States are of particular interest not only in the United States, but likely also abroad. Unlike in the United States, deposit insurance is relatively recent in most other countries. In fact, most systems abroad have been in operation at most two or three decades. While it may be difficult to extrapolate beyond credit unions, ASI's performance thus far points to a set of practices that could help buttress other government and private deposit insurers in the United States and abroad. Nonetheless, private deposit insurance in the United States remains confined to its credit union niche. Whether private deposit insurance will be able to serve other depositories in the United States remains an open question.

## Four Waves of Deposit Insurance

Introductions of deposit insurance systems in the United States can be categorized into four waves. The first wave occurred in the antebellum period, with six separate systems launched between 1829 and 1858.[2] These systems insured banknotes and/or deposits. Each system was closed, at the latest, soon after the beginning of the National Banking System in the 1860s. The second wave followed the Panic of 1907, with eight systems launched by 1917. Each of these systems failed.[3] The third wave was a result of the Great Depression failures of many thousands of banks, which imposed enormous losses on depositors. The (Glass-Steagall) Banking Act of 1933 and the National Housing Act of 1934 launched the federal deposit insurance system, respectively for commercial banks and savings banks (the FDIC) and for savings and loan institutions (the Federal Savings and Loan Insurance Corporation, FSLIC). In addition, in 1932, Massachusetts set up a deposit insurer for savings banks and one for cooperative banks.[4]

Introduced in 1970, federal deposit insurance for credit unions was mandatory for federally chartered credit unions and available to state-chartered ones. The program was operated by the federal credit union regulator (the National Credit Union Administration, NCUA) under the name of the NCUSIF. The introduction followed years of experimentation with nonfederal alternatives and strenuous debate. For example, in the 1950s, state credit union associations sponsored "stabilization programs" whereby stronger credit unions would assist struggling ones. And, the credit unions' trade association (the Credit Union National Association, CUNA) long opposed federal deposit insurance, fearing that federal regulation would restrict state-chartered credit unions and that insurance would imply that credit unions, like banks, were unsafe.[5]

Unlike many other systems, deposit insurance for credit unions did not arise on the heels of a financial crisis, but rather as a response to steadier competitive pressures on credit unions' business. Despite the absence of federal deposit insurance, deposits at credit unions had grown rapidly after World War II. From 1949 to 1965, annual real growth rates of deposits in credit unions were high (ranging from 10 to 24 percent), far exceeding those of commercial banks. One reason underlying the high growth rates was the fact that, during the Great Depression, credit unions suffered few runs and only a very small number of their depositors suffered losses. However, as their deposit growth rates slowed during the 1960s, many credit unions concluded that deposit insurance would be a cost-effective benefit to their customers.[6] Thus, after World War II, a fourth wave occurred, which included eighteen nonfederal insurers for credit unions (and eleven for thrifts) being introduced from 1955 to 1981.[7]

### Deposit Insurers for Credit Unions vs. Other Financial Institutions

Critics of private deposit insurance point out that seven of eleven nonfederal thrift deposit insurers launched during the fourth wave eventually failed (i.e., they closed unable to cover their commitments to insured depositors).. The most spectacular failures occurred in Mississippi (1976), Nebraska (1983), and Ohio and Maryland (1985). When legislatures in other states required thrifts to obtain federal deposit insurance, three more thrift deposit insurers failed — Utah (1986), Colorado (1987), and Iowa (1988) — leaving only four thrift deposit insurers to close without failing — i.e., without imposing losses on their insured depositors: Hawaii (1985), California (1989), Kansas (1991), and Pennsylvania (1992).[8]

Proponents of private deposit insurance for credit unions point out that only one nonfederal deposit insurer catering to credit unions — the Rhode Island Share Deposit Indemnity Corporation, RISDIC — has ever failed. And RISDIC's failure in 1991 seems anomalous in that, unlike almost all of its peers, RISDIC also insured thrifts, which apparently were the major source of the losses that toppled RISDIC.[9]

The failures of thrift deposit insurers and RISDIC did not directly affect other credit union deposit insurers, but they deeply transformed the political environment for deposit insurance. To avoid presiding over failures of deposit insurance systems, several state legislatures (Connecticut and New Mexico in the early 1980s, and Wisconsin, Virginia, and Utah in the late 1980s) and regulators (Texas in 1991) required their state-chartered credit unions to obtain federal insurance. As a result, nonfederal deposit insurers in those states closed. Heavy political pressure, including threats of state and federal legislation, led credit union deposit insurance systems in California, Florida, Georgia, Massachusetts, Tennessee, and Washington to "voluntarily" stop providing an alternative to federal insurance.[10]

Proponents of private deposit insurance argue that it is particularly suited to insuring credit unions, because these institutions have historically been less risky than other depositories, particularly banks. Edward Kane, Robert Hendeshott, and James A. Wilcox have analyzed how incentives at credit unions may reduce risks to insurers. Wilcox notes striking differences in annual loss rates between credit unions and other depositories: from 1971 to 2004, credit unions' annual losses imposed on NCUSIF were only 1.8 cents per $100 of insured deposits, much lower than the annual losses imposed on the FDIC of 7.3 cents per $100.[11]

In contrast to stock-owned depositories, the mutuality of credit unions typically constrained managers' abilities to gain from taking additional risks. Managers reap some rewards from being more profitable, but their interests typically are tied more to the survival than to the profitability of their institutions. Conversions of credit unions into stock-owned thrifts are a possible avenue to greater managerial rewards, but conversions are arduous and rare, and in any event, then remove them from coverage by credit union deposit insurance.[12]

In addition, customers of credit unions must share a "common bond" based on employment, association, or residence. While fields of membership have been liberalized, common bonds still limit credit unions' ability to benefit from economies of scale. Effective size restrictions give some credit unions strong incentives to collaborate. Jointly participating in liquidity services, back-office operations, branches, and some types of lending offers some otherwise unavailable scale economies. Such participation also typically entails sharing detailed information, which reduces managers' taking unwarranted or "excessive" risks.[13]

Thus, while many insurers of thrift deposits failed, no insurer of strictly credit union deposits has failed. The sixteen insurers catering to credit unions that closed did not fail, in that they made good on their coverage and imposed no losses on others. Thus, ASI's survival to date can probably be credited partly to its insuring only credit unions.

## Geographic Diversification

Laws preventing nonfederal deposit insurers from operating across state borders expose these insurers to geographic-concentration risk, which is often large and perhaps readily avoided. Because of their states' economies, midwestern depositories, for example, may be unavoidably and inordinately subject to agriculture-related risks. Of the nonfederal deposit insurance systems opened in the fourth wave, only four systems insured institutions in more than one state. Even most of those operated in relatively few states. To diversify such risks, RISDIC wanted to offer deposit insurance in other states, but its state regulators prohibited such diversification. U.S. Senator Wallace Bennett argued that such restrictions supported having federal deposit insurance for credit unions.[14]

Operating within a single state also effectively meant that many nonfederal systems insured only a few institutions. For instance, even at the high-water mark of nonfederal deposit insurance during the early 1980s, Maryland's credit union deposit insurer insured only twenty-seven institutions and North Carolina's only twenty-five. With so few insured institutions, losses at a single institution could seriously weaken the insurer. Indeed, the most spectacular failures of (nonfederal) thrift deposit insurers were precipitated by the failure of their largest insured institution (Mississippi, where the failing thrift accounted for 45 percent of insured deposits; Nebraska, 20 percent; and Ohio, 19 percent) or the second largest institution (Maryland, 13 percent; and RISDIC, 15 percent).[15]

ASI is a notable exception: it is the only nonfederal deposit insurer that has operated in many states. Founded in 1974 as the Ohio Credit Union Shareholders' Guaranty Association (OCUSGA), the company began offering insurance to credit unions in Ohio and soon offered it in other states. By 1976, credit unions in West Virginia, Indiana, and Illinois had expressed interest. West Virginia then was the first state to allow its credit unions to be insured by OCUSGA. The company was renamed American Credit Union Guaranty Association in 1977 and National Deposit Guaranty Corporation in 1981 to reflect its national aspirations. Other states that authorized their credit unions to use ASI as their primary deposit insurer included Illinois (1981); Nevada (1982); California, Indiana, and Missouri (1983); and Idaho (1984).[16]

ASI further diversified its geographic risks beginning in 1982 when it launched secondary insurance for federally insured credit unions. These insurance policies covered deposit amounts above those covered by federal "primary" insurance. These policies were not purchased by specific individuals, but rather by a credit union for all its members. Initially without limit, these secondary policies provide "excess" coverage of deposit balances up to $250,000 above the primary insurance ceiling.[17]

### How Public Were Private Deposit Insurers?

The deposit insurance systems from the fourth wave were set up as private corporations that were mutually owned by their insured depositories. Clearly, the insurers, like virtually all financial corporations, were subject to considerable regulation. But the degree to which these deposit insurers were private and the extent to which the public sector would backstop them if failure were imminent are unclear. For instance, state laws may have stated that no government agencies backed deposits if the insurer failed. On the other hand, the names of deposit insurers often suggested links to state governments. Further evidence of their public nature can be drawn from these deposit insurers being sponsored by state governments that then stipulated in great detail how the insurance systems were to operate, with requirements that ranged from the institutions they could accept or reject to their organizational and funding structure. Furthermore, the potentially large numbers of voters that would suffer losses in the event of the failures of a deposit insurance system suggested to many that nonfederal deposit insurers were private in name only.[18]

State laws prescribed the operation of deposit insurers in great detail, even covering the allowable names. Thus, ASI underwent several name changes to adapt to changing regulatory concerns. In 1988, it was renamed National Deposit Insurance Corporation (NDIC) to comply with a state law requiring it to include the word "insurance" in its name. In 1991, federal legislators prompted the company to adopt its current name, American Share Insurance, to make it less likely that consumers would confuse it with a federal agency.[19]

ASI's efforts to further reduce its geographic risks include lobbying to expand its area of operations. As a result, it gained state approvals to offer primary deposit insurance in Alabama (1997), Maryland (2002), and Texas (2006). Permission to operate in Maryland involved state legislation easing the closure of Maryland's credit union deposit insurer and the transfer of most of its five insured credit unions to ASI. In contrast, approval in Texas did not require legislative action, but only permission from regulators. However, despite requests from individual credit unions and various hearings, legislatures and regulators in North Dakota (2000), Colorado (2003) and Washington State (2007) have denied their credit unions the option to obtain their primary deposit insurance coverage from ASI.[20] ASI's ongoing efforts to diversify geographically also have helped it to resemble more private non deposit insurance companies that have customers in many states and operate largely independently from their home state governments, and seem less similar to most past nonfederal deposit insurers that were largely quasi-governmental entities with strong links to their state governments.

## Covering Only Stronger Depositories

The first three waves of deposit insurance systems also have provided other lessons about ways to operate. In the past, some state governments forced some systems to provide insurance for weak depositories and simultaneously prohibited those systems from imposing requirements on their insured depositories. Some states (e.g., Florida, Maryland, and Wisconsin) required their state-chartered credit unions to be insured by their state's insurer (e.g., Florida, Maryland, and Wisconsin).[21] These requirements, in effect, precluded the deposit insurers from selecting only those in sufficiently good condition to be deserving of insurance. Without being able to constrain their behavior, these weak depositories could impose large and foreseeable losses on their deposit insurance systems.

The NCUSIF has borne similar burdens as a result of sometimes conflicting goals enunciated by Congress. For example, the 1970 legislation that required federally chartered credit unions to apply for federal deposit insurance also required the NCUA to evaluate them for insurability and to accept only those that were deemed low risk. However, when the NCUA initially rejected covering 1,400 credit unions, citing their having delinquent loans that were too high relative to reserves, Congress then granted those credit unions temporary insurance and allowed them two years to remedy their shortcomings.[22]

In contrast, since 1975, Ohio required credit unions to obtain deposit insurance, either federal or private. This choice for credit unions also gave ASI a choice. In its marketing materials, ASI states that it seeks to insure only credit unions that meet high underwriting requirements. Between 1994 and 2003, ASI approved thirty-one applicants, but it also denied eight others. Once a credit union receives ASI deposit insurance, it remains subject to regular monitoring by ASI. If a credit union fails to comply with ASI requirements to remedy unsafe conditions in a timely manner, ASI can terminate coverage with thirty days notice. While ASI has yet to exercise this policy, it has used it as leverage to force changes in credit unions.[23]

### Drawing Funding from Stronger Insured Institutions as Needed

Deposit insurers failed when they had neither (1) sufficient funds in reserves to cover the losses incurred by their failed members, nor (2) the ability to raise enough funds from their healthier members. Among the first wave of deposit insurers, the systems in New York, Vermont, and Michigan had set low limits on how much each surviving depository would have to contribute in the event that losses erased the insurers' reserves. Ultimately, all three failed. Despite their names, the antebellum State Banks of Indiana, Ohio, and Iowa may be viewed as experiments in deposit insurance. The State Banks were made up of "branches" that were separately capitalized and operated, each making its own loan decisions. The State Banks themselves did not directly make loans, instead acting largely as supervisory boards that limited each branch's note issues (and thus, at the time, also their lending). Since the branches guaranteed each other's obligations without limit, branches were in practice akin to members of a deposit insurance system (i.e., like today's banks) where there were effectively no limits on the liability that surviving members had for the losses incurred by failed members. These high (i.e., unlimited) liability limits seem to have been a recipe for successful deposit insurance in that no depositor in any of those State Banks or branches suffered losses. In contrast, second wave deposit insurers set low liability limits for their members and, by 1931, each of the insurers failed.[24]

Some of the deposit insurers of the fourth wave apparently learned from their predecessors about the importance of adequate reserves and the value of being able to draw on surviving depositories if reserves were exhausted. For example, the NCUSIF, ASI, and several other nonfederal deposit insurers initially set annual premiums at 1/12 of 1 percent of deposits (i.e., approximately 0.083 percent). These premiums were much higher than credit unions' historical annual losses of 0.01 percent during 1934-1969 and were meant to cover the insurer's operational expenses and insurance losses in "normal" years, and to help to build an "insurance fund" to cover losses in years with exceptionally high losses.[25]

Then, recognizing that losses could be larger than accumulated reserves, insurers also included provisions that permitted them to draw additional funds from surviving depositories. Some of the insurers from the fourth wave, however, repeated the mistakes of earlier waves, setting very low ceilings on the obligations of surviving depositories to replenish an insurer's reserves. The NCUSIF initially capped the additional levy that it could command at an (additional) 1/12 of 1 percent of deposits per year. Other insurers even allowed insured depositories to withdraw their accumulated contributions that had not been used by the insurer to cover losses.[26]

In contrast to other deposit insurers, ASI pioneered funding policies that both place large amounts of funding up front at its disposal and would largely automatically transfer funds from surviving depositories to ASI in the event of sufficiently large losses. In the late 1970s, ASI began to require each of its credit unions to maintain a "capitalization deposit" with it equal to one percent of its deposits. These funds are "deposits" rather than premiums in that, during normal times, they would be refundable if the credit union discontinued its membership in ASI (for instance, when switching to another deposit insurer). ASI used the investment proceeds of these capitalization deposits to fund its operating costs and to accumulate additional assets, which are not refundable. These funds provide "capitalization" in that, if ASI's reserves fell below one percent of insured deposits (e.g., due to large losses), these funds would not then be refundable and, like capital, would be at risk of loss.[27]

Furthermore, if losses were to move ASI's reserves below 1 percent, ASI may contractually, and fairly automatically, levy a fee of up to 3 percent of assets per year on credit unions that have capital ratios greater than 4 percent. While, as of the Summer of 2009, ASI has never needed to levy such a fee, should the need arise, the Superintendent of the Ohio Division of Financial Institutions may allow ASI to levy fees even above the three percent ceiling. Thus, ASI-credit unions' net worth acts effectively as supplementary, off-balance-sheet reserves for ASI. Although the joint liabilities of ASI credit unions are theoretically limited, the limits are quite high.[28]

ASI's funding policies have been sufficiently well regarded that they have been flattered by mimicry. Following ASI, by the early 1980s, most nonfederal deposit insurers for credit unions included some form of capitalization deposits. And, following severe depletion of NCUSIF reserves in 1982 and 1983, the NCUSIF also adopted capitalization deposits. Even the FDIC now has authority to draw upon the capital of its insured depositories to replenish its reserves. While some deposit insurers might face resentment when they seek additional funding (as the NCUSIF did in 2009), ASI-insured credit unions have in the past agreed to commit more funds. In 1989, for instance, they approved a 30 percent increase in capitalization deposits.[29]

In addition to being able to draw on the resources of its insured depositories, deposit insurers might reduce their risks of failures in other ways. One way would be to reinsure some of the obligations with others. Some credit unions called for nonfederal deposit insurers to reinsure each another. Such mutual reinsurance could greatly reduce geographic risks. Such reinsurance, however, would likely have required deep coordination of standards across deposit insurers. ASI actively advocated such mutual reinsurance but, unable to coordinate across state legislatures, proposals did not advance. The credit union deposit insurer in the state of Kansas took the logic of reinsurance to its ultimate conclusion, merging into Tennessee's insurer in 1983. ASI's similar efforts to merge with three separate deposit insurers did not come to fruition.[30]

Critics of private deposit insurance argue that, ostensibly not having the backing (i.e., reinsurance) of any governmental entity, ASI could not survive catastrophic losses. Of course, one can compute losses so large that they would doom ASI, or almost any insurer. And such scenarios seem more plausible in light of the financial crisis that began in 2007. But ASI argues that such criticisms lack foundation in actuarial science and ignore ASI's successful past performance. ASI argues it can survive depositor runs just as the private nondeposit insurance industry survives other low-frequency, high-severity risks, through careful underwriting, continuous risk management, and the financial backing of its insured depositories. Independent actuaries hired by ASI have determined that, even without charging additional amounts to its healthier members, ASI could withstand losses sustained during adverse economic conditions for up to five years.[31]

One currently compelling argument against private deposit insurance is that, lacking explicit government backing, it may not survive a run by depositors. Recent events suggest that runs can sink almost any financial institution. Experience, recent and more distant, teaches that governments typically contribute funds when deposit insurers fail, whether the insurers are federal (e.g., FSLIC) or nonfederal (e.g., RISDIC). Federal taxpayers contributed over $100 billion as a result of the FSLIC failure. Rhode Island taxpayers contributed approximately $300 million as a result of RISDIC's failure.[32]

According to some critics, deposit insurers themselves not only underprice risk-taking by their insured depositories, but face underpriced backstop funding from the U.S. Treasury. As a result, taxpayers receive too little compensation for the risks that the public sector assumes. To address these concerns, Wilcox proposed reforms of federal deposit insurance, including truly risk-based premiums (see below), extra charges for institutions that grow faster, rebates when the insurance fund grows too large, and additional charges when the insurance fund becomes too small.[33] The suggested reforms effectively turn the FDIC into a mutual insurer with capitalization deposits much like those used by ASI. A key additional element in Wilcox's proposals is formalizing the currently unwritten and underpriced insurance for catastrophic losses that the U.S. Treasury extends to the FDIC. In this light, assuming that the main drawback to private deposit insurers is their inability to cover catastrophic losses, perhaps the U.S. Treasury could also offer catastrophic insurance to private deposit insurers.

## Incentives for Improved Performance

Historically, the premiums charged by deposit insurers have not fully reflected the risks imposed by their insured depositories. For instance, in the early 1980s, only the deposit insurer for North Carolina credit unions used a risk-based scale for its capitalization deposits, which ranged from 1.25 percent for the safest institutions to 2 percent for the riskiest ones. The FDIC introduced premiums partially based on risk in 1993. The overwhelming majority of banks paid premiums of zero for most of the next fifteen years. The losses imposed on the FDIC recently caused it to raise its premiums first to 5 cents and then to 14 cents per $100 for 90 percent of banks and first to 43 cents and then to 77.5 cents per $100 for the riskiest banks. Nonetheless, 90 percent of banks were clustered in the same risk group. Despite repeated suggestions from the U.S. GAO, NCUSIF does not risk-base its insurance pricing.[34]

As encouragement for credit unions to better manage risks, ASI has switched from flat to risk-based pricing. Commenting on the switch, ASI's CEO, Dennis Adams, stated that "the idea is to induce a market incentive to constantly seek to improve operations." In 1991, risk-based premiums were introduced for ASI's excess insurance coverage. Beginning in 2001, ASI moved its capitalization deposit rate from a flat 1.3 percent of deposits to rates ranging from 1 to 1.3 percent, depending on the insured credit unions' performance and condition.[35]

## The Decline of Nonfederal Insurance for Credit Unions and the Outlook for ASI

Since World War II, the fourth wave brought many new, nonfederal deposit insurance systems into existence in the U.S. But, by now, nearly all have disappeared. During the 1970s, nonfederal alternatives mushroomed as the federal and state governments required credit unions to have insurance for their deposits. The federal system for credit union insurance was also introduced then. The high-water mark for nonfederal deposit insurance for credit unions occurred in the early 1980s. In 1983, for instance, credit unions had the option to be insured nonfederally in over thirty states. Fifteen nonfederal providers insured 3,145 credit unions with $15 billion in deposits (or 15.4 percent of credit union deposits). Following the failure of thrift deposit insurers (and RISDIC), many states required federal insurance. By 1990, ten nonfederal providers operated in twenty-three states insuring 1,462 credit unions with $18.6 billion in deposits (or 9.5 percent of credit union deposits). By the early 2000s, ASI was the only surviving private provider of primary deposit insurance.[36]

After its beginning in 1974 with only twenty-five Ohio credit unions, ASI grew quickly, helped in part by spreading state requirements for credit unions to have deposit insurance. ASI had $1.1 million assets in 1975, $4.3 million in 1980, and almost $70 million in 1990. Insured deposits grew from about $2 billion in 1980 to $5.4 billion in 1990. ASI also moved quickly to diversify, providing deposit insurance products in 1990 to 420 credit unions in twenty-two states.[37] However, over the following decade, ASI's share of aggregate insured credit union deposits has been reduced by states beginning to require federal insurance for their state-chartered credit unions. By the early 2000s, ASI provided primary deposit insurance for approximately 200 credit unions with $10 billion in deposits (or 2 percent of credit union deposits). By 2008, ASI provided primary insurance for $10.7 billion deposits (or 1.3 percent of credit union deposits) for approximately 1 million depositors in 160 credit unions across nine states.[38]

As late as the Summer of 2009, the credit unions insured by ASI have imposed relatively few losses. ASI's annual historical insurance losses average 0.3 cents per $100 of insured deposits and compare, for roughly similar periods, with much higher losses of 1.8 cents at NCUSIF and 7.3 cents at the FDIC. ASI's losses have averaged 4 percent of the assets in its failing credit unions, which is far lower than NCUSIF's experience (14 percent) or the FDIC's (15 percent).[39]

While the severity of the effects of the housing, financial, and economic crises on depositories and their insurers is yet to become fully clear, ASI's performance up to the Summer of 2009 implies that it is weathering the ongoing crisis well. Numerous examinations by ASI reveal very limited exposure at ASI-insured credit unions to subprime mortgage lending risk. ASI has experienced no insurance losses in recent years, and its fund is far larger (relative to deposits) than at the NCUSIF and the FDIC, both of which have already tapped their insured depositories for more funds. In fact, reflecting its strong performance to date, ASI lowered required 2009 capitalization deposits for CAMEL 2 credit unions (i.e., the majority of them) from 1.1 to 1.0 percent.[40]

While ASI has so far been a viable alternative to federal deposit insurance in the United States, the recent financial crisis has raised perceptions that, in times of extreme stress, federal guarantees may be superior, if not essential, for financial firms. Nonetheless, despite the extreme stress of recent years, ASI so far has performed well within its admittedly small niche in the financial service market.

## NOTES

1. Credit unions often refer to deposits as shares and to deposit insurance as share insurance. While we document the several names under which ASI has operated, for simplicity we generally refer to the company as ASI before and after it adopted its final name.
2. The six antebellum deposit insurance systems were launched in New York (1829), Vermont (1831), Indiana (1834), Michigan (1836), Ohio (1845), and Iowa (1858). For in-depth descriptions of the first and second waves, see Charles W. Calomiris, "Is Deposit Insurance Necessary? A Historical Perspective," *The Journal of Economic History* 50 (1990): 283-295 and Eugene White, "State-sponsored Insurance of Bank Deposits in the United States, 1907-1929" *Journal of Economic History* 41 (1981): 537-557.
3. The early 20th century deposit insurers were launched in Oklahoma (1907); Texas, Kansas, and Nebraska (1909); Mississippi (1914); South Dakota (1915); and North Dakota and Washington State (1917).
4. Jilian Mincer, "Massachusetts Sets Standard on Deposits," *Wall Street Journal*, 5 August 2008, D6.
5. Wallace F. Bennett, *Introduction of the Credit Union Share Insurance Act of 1970*, Congressional Record — Senate 116 (Washington, D.C., 11 May 1970): 14816-14818; J. Carroll Moody and Gilbert Fite, *The Credit Union Movement: Origins and Development 1850-1980*, 2nd ed., (Dubuque, IA: Kendall/Hunt Publishing Company, 1984).
6. Bennett, "Insurance Act;" CUNA, *United States Credit Union Statistics* (Washington, D.C. 2009); William B. English, "The Decline of Private Deposit Insurance in the United States," *Carnegie-Rochester Conference Series on Public Policy* 38 (1993): 57-128; FDIC, *Historical Statistics on Banking: Commercial Bank Assets* (Washington, D.C., 2009); Bill Kelly and Judith Karofsky, *Federal Credit Unions without Federal Share Insurance: Implications for the Future* (Madison, WI: Filene Research Institute, 1999); Moody and Fite, "Credit Union Movement," 306; NCUSIF, *Annual Financial Report National Credit Union Share Insurance Fund: Fiscal Year 1983* (Alexandria, VA: 1984); U.S. Senate, *Federal Credit Union System*, Senate Report No. 555 (Washington, DC, 1934); James A. Wilcox, *Failures and Insurance Losses of Federally-Insured Credit Unions: 1971-2004* (Madison, WI: Filene Research Institute, 2005).
7. The eighteen nonfederal deposit insurers for credit unions were launched in Illinois (1955), Massachusetts (1961); North Carolina (1967); Rhode Island (1969); Wisconsin (1970); Connecticut, New Mexico, and Utah (1973), Ohio, Tennessee, and Virginia (1974); Florida, Kansas, Maryland, Texas, and Washington (1975); Georgia (1979); and California (1981). The eleven nonfederal insurers for thrifts (i.e., depository institutions with neither commercial bank nor credit union charters) were launched in Ohio (1956), Maryland (1962), Mississippi (1970), California (1971), Colorado (1973), Utah (1975), Hawaii (1977), Nebraska (1978), Pennsylvania (1979), and Iowa and Kansas (1981). A nonfederal deposit insurer for commercial banks was also set up in Pennsylvania (1980). For an in-depth description of the fourth wave, see English, "The Decline."

8. Pennsylvania's nonfederal deposit insurer for commercial banks also failed in 1992. English,"The Decline."
9. English, "The Decline," 71; ASI, *A 25 Year Retrospective* (Dublin, OH: 1999).
10. The Illinois credit union insurer closed in 1964 well before the launch of other credit union deposit insurers. It closed, in large part, due to disagreements among its officers. The nonfederal deposit insurer based in North Carolina catering to both credit unions and thrifts closed down, without losses, following the failures of the thrift deposit insurers in Ohio and Maryland and the unanimous decision by its members to apply for federal deposit insurance. Bennett, "Insurance Act;" *Credit Union Executive*, "Rhode Island's Aftermath: A Disaster for Private Insurance and Credit Unions?" (Spring 1991) 4-10; CUNA, "Washington DFI Hiring for Private Insurance Study," *News Now*, 28 September 2006; English, "The Decline;" Scott Messmore, "Private Insurance Makes Comeback in Lone Star State." *Credit Union Journal*, June 19, 2006, 3; Nathaniel C. Nash, "U.S. Moves to Aid Maryland Thrift Unions." *New York Times*, 14 May 1985, D19; NCUA, *1985 Annual Report of the National Credit Union Administration* (Alexandria, VA: 1986); Roy P. Patin and Douglas McNiel, "Safety of Nonfederally Insured Versus Federally Insured Credit Unions in the United States," *Journal of Economics and Finance* 16 (1992): 49-56; Susan Pulliam, "U.S. and States Beginning to Draft Bills Barring Private Credit Union Insurance," *Wall Street Journal*, 3 January 1991; Martin Tolchin, "Private Insurance for Banks Debated," *New York Times*, 10 June 1985, D15.
11. Credit unions have historically also borne stricter restrictions than other depositories on the types of assets they may hold. Edward J. Kane and Robert Hendershott, "The Federal Deposit Insurance Fund that Didn't Put a Bite on U.S. Taxpayers," *Journal of Banking and Finance* 20 (1996): 1305-1327; James A. Wilcox, *Determinants of Credit Union and Commercial Bank Failures: Similarities and Differences, 1981-2005* (Madison, WI: Filene Research Institute, 2007); Wilcox, "Failures and Insurance Losses," *Credit Union Conversions to Banks: Facts, Incentives, Issues, and Reforms* (Madison, WI: Filene Research Institute, 2006).
12. Kane and Hendershott, "A Bite on U.S. Taxpayers;" Eric Rasmusen, "Mutual Banks and Stock Banks," *Journal of Law and Economics* 31 (1988): 395-421; Wilcox, *Conversions*.
13. Kane and Hendershott, "A Bite on U.S. Taxpayers," 1311-1312.
14. Bennett, "Insurance Act"; English, "The Decline"; NCUSIF, "Financial Report," 17; Michael Quint, "About 10% of Credit Unions Are Privately Insured," *New York Times*, 3 January 1991, D4; Tolchin, "Private Insurance," 58.
15. English, "The Decline," 66; NCUSIF, "Financial Report," 16-19; U.S. General Accounting Office (GAO), *Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management* (Washington, D.C.: 2003).
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