

An FDIC invoice for your fair share of the cost of closing failed institutions will be coming your way soon, and this “special assessment” may only be the first of many!

The cost of FDIC insurance protection for your customers is about to increase. Even if your institution opted out of the Transaction Account Guaranty part of the Temporary Liquidity Guaranty Program, your FDIC insurance costs are about to increase dramatically. No, this is not part of the new risk based FDIC insurance premium calculation process. The FDIC has just announced the first of what may be regular, quarterly special assessments that are intended to keep the Deposit Insurance Fund (DIF) from falling to unacceptably low or even negative levels.

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Nowhere to run to and nowhere to hide! That seems to be the way many financial institution executives feel these days as they see their earnings squeezed by a weakened economy, financially stressed borrowers, a real estate market with no bottom in it, and now by the pressure of increasing regulatory burdens and special assessments. The most recent industry earnings numbers for both banks and thrifts are abysmal and they are likely to get worse as the surviving institutions get the “bill” for the costs of liquidating their failed peers. The FDIC has just announced that the Deposit Insurance Fund (DIF) is nearly empty. Over the last year, the fund has been severely depleted by the cost of resolving failed institutions. In order to maintain public confidence, the FDIC is exercising authority provided under 12 U.S.C. 1817(b)(5) to use special assessments to help replenish the fund.

The FDIC initially adopted an interim rule to impose a 20 basis point emergency special assessment. Not surprisingly, this did not go over well with institutions. In response, Senator Chris Dodd, the Senate Banking Committee Chairman, has stated that he will quickly introduce the Depositor Protection Act of 2009 that would increase the FDIC’s line of credit with the Treasury from the current \$30 billion to \$100 billion. The bill also would increase the FDIC’s Treasury borrowing authority temporarily to \$500 billion until December 31, 2010. This is important because the FDIC stated that, if Congress passed this bill, the assessment would be cut from 20 basis points to 10. Please keep in mind, this has not happened yet! The FDIC is now considering this scenario along with other proposals made during the comment period for lessening the burden of the initial assessment.

As it currently stands, the special assessment will be calculated based on each institution’s June 30, 2009 deposits and will be collected on September 30, 2009. The interim rule also provides that, after June 30, 2009, if the reserve ratio of the Deposit Insurance Fund is estimated to fall to a level that the FDIC believes would adversely affect public confidence or to a level which shall be close to zero or negative at the end of a calendar quarter, an emergency special assessment of up to 10 basis points may be imposed on all insured depository institutions based on each institution’s assessment base calculated pursuant to 12 CFR 327.5 for the corresponding assessment period. In essence, this means that, if the current trend toward liquidating troubled institutions continues or increases, additional special assessments are likely in the future.

Keep in mind that this special assessment is in addition to, and on top of, your existing risk based insurance assessment. You still have to provide for and pay that regular assessment, along with the 10 basis point assessment related to the Transaction Account Guaranty (TAG) portion of the

Temporary Liquidity Guaranty Program if your institution is participating in the TAG program. While there is no guarantee that additional special assessments will be required in the future, you may want to consider the likelihood of such assessments when preparing future budgets and capital forecasts.

You can get more information about the special assessments at <http://www.fdic.gov/news/news/financial/2009/fil09012.html>.