

FDIC Proposes Rules on Prepaid Insurance Assessments Wednesday, September 30, 2009

Yesterday, the Federal Deposit Insurance Corporation adopted a Notice of Proposed Rulemaking that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC Board also voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and extend the restoration period (in which to return the deposit insurance fund reserve ratio to 115 bps) from seven to eight years.

Specifically, the prepaid assessment for these periods would be collected on December 30, 2009, along with each institution's regular quarterly risk-based deposit insurance assessment for the third quarter of 2009. For the fourth quarter of 2009 and for all of 2010, the prepaid assessment rate would be based on each institution's total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect for the institution on September 30, 2009, had been in effect for the entire third quarter of 2009. The prepaid assessment rate for 2011 and 2012 would be equal to that institution's modified third quarter 2009 total base assessment rate plus 3 basis points. Each institution's prepaid assessment base would be calculated using its third quarter 2009 assessment base, adjusted quarterly for an estimated 5 percent annual growth rate in the assessment base through the end of 2012. Each institution would record the entire amount of its prepaid assessment as a prepaid

expense (asset) as of December 30, 2009. As of December 31, 2009, and each quarter thereafter, each institution would record an expense (charge to earnings) for its regular quarterly assessment for the quarter and an offsetting credit to the prepaid assessment until the asset is exhausted. Once the asset is exhausted, the institution would record an accrued expense payable each quarter for the assessment payment, which would be paid in arrears to the FDIC at the end of the following quarter. If the prepaid assessment is not exhausted by December 30, 2014, any remaining amount would be returned to the depository institution.

Prepaid assessments would be mandatory for all institutions, but the FDIC retains discretion to exempt an institution from the prepayment requirement if it determines that the prepayment would adversely affect the safety and soundness of the institution. In addition, institutions could request exemption from payment under certain circumstances. The FDIC would begin to offset prepaid assessments on March 30, 2010, representing payment for the fourth quarter of 2009.

This is just a proposal, but the prepaid assessment was chosen in favor of imposing yet another special assessment on the industry. Everything's relative, but (according to the FDIC) this method should not impair either bank liquidity positions or their ability to lend.