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For Immediate Release

New FDIC Assessment Method Will Penalize the Largest Banks According to Treasury Strategies

November 14, 2010 (Chicago, IL) – The Federal Deposit Insurance Corporation (FDIC) announced this week its plans for a new formula to assess deposit insurance premiums. Designed to restore safety to the deposit insurance fund, the new system will disproportionately burden the largest banks and could disrupt both profitability and market share for banks industry-wide. The impact would trigger a massive restructuring of bank balance sheets according to Treasury Strategies, a treasury consulting firm.

"The new program may result in the largest banks taking on a far greater share of overall assessments," says Dave Robertson, a Partner with Treasury Strategies. "By charging premiums on net assets rather than domestic deposits, the largest banks will bear a proportionally higher burden."

For every dollar of domestic deposits, the five largest banks hold $2.00 in net assets according to a recent study conducted by Treasury Strategies. This fact they could bear a deposit assessment burden that is nearly 50% larger than the remainder of the industry. As Table 1 shows, the rest of the industry holds roughly $1.38 in net assets for every dollar of insurable deposits.

Table 1 New Basis for FDIC Assessments

All $ Trillion	Total Assets	Tangible Equity	Domestic Deposits	Ratio of Net Assets to Deposits
Top 5 Banks	$ 5.596	$ 0.386	$ 2.604	2.00
Top 20 Banks	$ 7.325	$ 0.548	$ 3.734	1.81
Industry	$ 13.221	$ 1.000	$ 7.668	1.59
Industry Ex Top 5 Banks	$ 7.624	$ 0.614	$ 5.063	1.38

Net assets defined as total assets less tangible equity.

The new assessment scorecard will also create transparency challenges for the banks. The assessment rate on net assets can vary from 5 to 35 basis points (0.05% to 0.35%). Additionally, the FDIC will use its judgment of a bank's risk to alter the rate by as much as 15 basis points.

According to Robertson, because the assessment method will differ based on both balance sheet structure and subjective judgment, the rates and methods banks might use to recover insurance premiums from their customers will vary widely, potentially creating market confusion.

"These changes will have a material impact on profits, forcing the largest institutions to consider new ways to recover or reduce their FDIC expenses," noted Tony Carfang, a Partner at Treasury Strategies. "Large banks could shed assets. Conversely, they could aggressively seek to take deposit market share

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from smaller banks and remedy the disproportionate impact of the assessment method."

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