FDIC ASSESSEMENT

by Steve Brown

In 1981, author Harold Kushner wrote a book called, "When Bad Things Happen to Good People." In it, he ponders why there is so much pain and suffering in the world. Given the most recent action by the FDIC to raise insurance assessments on banks that are already struggling throughout the country (in particular community banks), we have been wondering that ourselves.

While we know the FDIC needs to replenish the insurance fund, community bankers have been caught up in the pain caused by the largest national banks, investment banks, hedge funds and others. We are going on record to say it just isn't fair (we had a few other choice comments, but we leave them to your imagination). Regardless, we believe community bankers will want to know the finer details of this most recent interim ruling in order to better prepare.

Special Assessment: The FDIC is imposing a 20bp "emergency special assessment" on 6/30/09 (will be collected 9/30). The rule also gives the FDIC the ability to impose future emergency special assessments of up to 10bp if necessary.

Timing Change: The FDIC extended the timeline to restore the fund to 1.15% (currently 0.40%) from 5Ys to 7Ys. This was done in recognition that the industry is under significant strain, the economy is in a deep recession. The industry can handle only so large an assessment at this time.

New Assessment Rates: Assessment rates have been adjusted to differentiate for risk. Currently, most banks are in the best risk category and pay from 12 to 14 cents per $100 of deposits. Under the new rule, banks in this top tier will pay a base rate of 12 to 16 cents per $100 (annualized, beginning 4/1/09).

TLGP: The FDIC also modified the Temporary Liquidity Guarantee Program to allow participating institutions to issue convertible debt (with FDIC permission). The change is designed to help banks raise capital and reduce the large amount of TLGP debt maturing in mid-2012.

Fee Grid: Here is the assessment grid (fees indicated are the maximum possible by category in basis points):

Fee Risk #1 Risk #2 Risk #3 Risk #4

Base 16 22 32 45

Unsecured Debt (5) (5) (5) (5)

Secured Liabils 8 11 16 22.5

Brokered CDs 0 10 10 10

Total Fees 24 43 58 77.5

Fine Print: Banks may also want to hear about some of the changes that were included in the so-called "fine print" and may not have made the major news stories. Banks that rely significantly on secured liabilities (FHLB) and/or brokered deposits will be assessed more. Even well-managed and well-capitalized banks (if they have had rapid asset growth and rely significantly on brokered deposits) will be assessed more.

Community Banks: This pain could not come at a worse time, as many banks are already struggling to remain profitable. It is estimated these changes could eat up an amount equal to 20% to 50% of 2008 earnings for the average community bank.

While projected fund losses for the industry now appear to be $80B over the next few years (and the FDIC had little choice but to replenish the fund), this assessment is not welcome. Increased fees of any sort, on an industry that is already greatly strained will only serve to decrease lending, increase layoffs and produce even further contraction. We just wish Treasury had thrown the FDIC a line (like they did with FNMA and FHLMC) and boosted the $30B line of credit that exists today to something more in the $200B range. Bankers don't mind paying their fair share, but this time around bad things have certainly happened to good people.

BANK NEWS

Failure 15 & 16

Heritage Community Bank ($232.9mm, IL) and Security Savings Bank ($238.3mm, NV) were closed Friday. MB Financial Bank ($8.8B, IL) will assume all of Heritage Community's deposits and purchase $230.5mm in assets for $14.5mm. Bank of Nevada ($3B, NV) will assume all of Security Savings' $175.2mm in deposits and purchase $111.3mm in assets.

1st To Give Back TARP

Iberiabank Corp. ($5.4B, LA) became the 1st bank in the US to give back the TARP funds it received in Dec. Iberia said it was doing so because recent actions, interpretations and commentary around the program had placed it at an unacceptable competitive disadvantage.

More Help

AIG announced a devastating $62B 4Q loss (the largest corporate loss in US history), as well as a plan that would cede control of its two largest divisions to the US Gov't. In exchange, AIG will get another $30B, plus forgiveness of interest on its existing previous Gov't debt. The move will prevent a downgrade that would trigger cross-default and cross-collateral provisions on as much as $300B of bank industry assets (and would spill over to hundreds of banks).

FHLMC Change

David Moffett has resigned as CEO of FHLMC after only 6 months on the job. Moffett, who came from the Carlyle Group, reportedly will return to the private sector.

Brutal Picture

The state of CA reported Jan. unemployment reached 10.1%, the highest level in 25Ys.