



Frequently Asked Questions: Lower Deposit-Insurance Assessment Rates for Community Banks

What has changed?

Congress approved ICBA-advocated legislation to base FDIC deposit-insurance assessment rates on assets minus tangible capital, not domestic deposits, saving community banks billions of dollars.

What's the difference between assets less tangible capital compared to domestic deposits?

There are more assets than domestic deposits in the banking system. This means the FDIC can charge a lower assessment rate for a base of assets less tangible capital than they would domestic deposits and still generate the same premium revenue.

Because community banks are primarily funded by deposits, expanding the assessment base to include assets means they will pay a much smaller share of total assessments. Instead of paying assessments only on the 50 percent of their assets funded by deposits, the largest institutions will pay premiums on their entire balance sheet, just like deposit-funded community banks do already. Subtracting tangible capital from assets means highly capitalized banks are rewarded with lower assessments.

How can I tell whether my bank will benefit?

Because there are more assets than domestic deposits in each bank and in the banking system as a whole, 5 basis points of assets will always be more than 5 basis points of domestic deposits. Because they don't generate the same amount of revenue, these are not equivalent assessments and we can't compare them. It's like comparing miles to kilometers or apples to oranges.

In order to make comparisons between different assessment bases, we must take into account that the FDIC seeks to generate a particular amount in total premium revenue, regardless of the assessment base used. Because there is \$1.57 of assets less tangible capital for each \$1 of domestic deposits in the industry overall, to generate the same amount of revenue the FDIC has to charge a higher assessment rate for deposit-based assessments than it would if the base were assets less tangible capital.

Using fourth-quarter numbers, it would take ***1.57 basis points of domestic deposits to generate the same assessment revenue as 1 basis point of assets less tangible capital***. That means for each basis point paid under the current system, a bank would pay just 0.636 basis points under the new assessment base. To figure out how the broader assessment base would impact your bank, compare 1 basis point of domestic deposits to 0.636 basis points of assets less tangible capital for your bank—multiply the difference by your current assessment rate to get your projected annual savings.

How does this affect other community banks?

ICBA has already done this calculation for every bank in the country. We found that more than 8,000 banks will pay lower premiums while only 132 will pay more. ***More than 99 percent of banks with less than \$1 billion in assets will pay lower premiums under the new assessment base, with 95 percent saving more than 20 percent on their premiums. The new system will realize this substantial savings for community banks by ensuring that the too-big-to-fail megabanks pay their fair share of assessment premiums.***

Here are some typical bank scenarios:

Scenario 1:

A \$250 million asset bank with \$20 million in tangible capital and \$205 million in domestic deposits, an 89 percent ratio of domestic deposits to assets less tangible capital:

$$\begin{aligned} \text{Current Assessments} &= 0.01\% * \$205,000,000 = \$20,500 \\ \text{Under new system} &= 0.00636\% * \$230,000,000 = \$14,628 \end{aligned}$$

That means for each basis points of their current assessment rate, this typical community bank will save nearly \$6,000. That's an annual savings of \$72,000 for a bank paying the 12 basis point Risk Category I base rate.

Scenario 2:

A \$1 billion asset bank with \$80 million in tangible capital and \$600 million in domestic deposits, a 65 percent ratio of domestic deposits to assets less tangible capital:

$$\begin{aligned} \text{Current Assessments} &= 0.01\% * \$600,000,000 = \$60,000 \\ \text{Under new system} &= 0.00636\% * \$920,000,000 = \$58,512 \end{aligned}$$

Even though this bank relies on FHLB Advances for funding more than is typical for a community bank, they'll still save about \$1,500 per basis point of current deposit-based premiums. More typical community banks of this size could expect to save as much as \$30,000 per basis point.

Scenario 3:

A \$1,450 billion asset bank with \$72 billion in tangible capital and \$818 billion in domestic deposits, a 59.4 percent ratio of domestic deposits to assets less tangible capital:

$$\begin{aligned} \text{Current Assessments} &= 0.01\% * \$818,000,000,000 = \$81,800,000 \\ \text{Under new system} &= 0.00636\% * \$1,378,000,000,000 = \$87,640,800 \end{aligned}$$

This megabank is a strong deposit-gatherer but also relies on the capital markets for funding. They'll be paying about \$6 million more in assessments per basis point of their current assessments.

Scenario 4:

A \$1,165 billion asset bank with \$91 billion in tangible capital and only \$263 billion in domestic deposits, a 24 percent ratio of domestic deposits to assets less tangible capital:

$$\begin{aligned} \text{Current Assessments} &= 0.01\% * \$262,000,000,000 = \$26,200,000 \\ \text{Under new system} &= 0.00636\% * \$1,165,000,000,000 = \$74,094,000 \end{aligned}$$

This megabank depends on foreign deposits, capital markets funding and the federal government to stay in business. They'll be paying about \$50 million more per basis point of current deposit-based assessment premiums.