
FDIC PROPOSED PRE-PAID ASSESSMENTS: HOW WILL YOU PAY FOR THEM?

The Headache: Considering FDIC's proposed pre-paid assessments

Our question: How will your bank pay for the proposed FDIC prepayment, if it is approved?

Come share your ideas and views, see what other bankers think about this critical new proposal

One banker's viewpoint: Prepaid Assessments Will Hit Us In Our ROA

Here's how Frank L. Carson III, president and CEO, Carson Bank, \$81.4 million-assets, Mulvane, Kan., "passed the aspirin."

As I understand the proposal, we would "capitalize" it, so to speak. In other words, we would list it as an asset on our books, “FDIC Prepayment.”

The payment would come from our cash, but is not an immediate expense. We would amortize the new asset quarterly, which is the amount of our FDIC assessment, reducing the new asset by the cost of that assessment. (A prepaid expense shows as an asset and is amortized, as opposed to a regular asset, which is depreciated.)

The effect is that our cost of the FDIC Prepayment would be like booking a non-accrued loan. So it would cost us in our Return on Assets (ROA).

This is in comparison to the government's cost of money if the funding were to come from the line of credit that was set up with the Treasury.

FDIC says there is plenty of liquidity in our system, so it can just be paid for out of liquidity. But in fact it is our cash that cannot be loaned to our customers.

[Editor's note: You can find our coverage of the proposal at this link.]

Now let's hear your views and ideas below!

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