

Bankers sound off on FDIC's emergency assessment (March 6, 2009)

Community bankers predict major impact on 2009 earnings

A SPECIAL "PASS THE ASPIRIN" REPORT

- Many brand it unfair to smaller banks
- Fee will exceed one bank's ten-year total loan losses
- "All of the income and expense projections for the year are no longer valid"
- How do bankers say they'll pay for it? Hike rates and fees, cut salaries, reduce lending, reduce liquidity

By Steve Cocheo, executive editor

FDIC's Feb. 27 approval of an interim rule that would impose a special one-time assessment on insured banks and savings institutions to beef up the Deposit Insurance Fund has community bankers steamed up.

The interim rule's 20 basis point charge on all insured institutions would be based on June 30 deposit levels, and would be payable on Sept. 30, as proposed. The intent is to raise the insurance fund's reserve ratio to 0.72%, from its yearend 2008 level of 0.4%. In addition, the interim rule would enable FDIC to charge special 10 basis point assessments each quarter.

During the meeting where the FDIC Board voted to publish the interim rule, John Reich, former FDIC vice-chairman, and presently Office of Thrift Supervision Director, opposed the measure. Reich, a community banker many years ago, called the concept unfair to smaller banks.

Call for action

The FDIC announcement galvanized the industry into action led by the ABA, which arranged a conference call between FDIC Chairman Sheila Bair and the association's leadership and state bankers association leaders. That and other meetings with policymakers prompted Bair to announce March 5 that she would cut the special assessment in half, to 10 basis points, if Congress increased the Treasury's backup line of credit to the FDIC from \$30 billion to \$100 billion. Senate Banking Committee Chairman Chris Dodd announced later in the day that he would introduce the ABA-backed Depositor Protection Act of 2009 to do that. The bill also would increase the FDIC's Treasury borrowing authority temporarily to \$500 billion until Dec. 31, 2010, according to an ABA announcement today.

ABA is using its full grassroots powers to get the bill passed quickly and is requesting all banks to participate, by contacting their Senators to support the Depositor Protection Act.

But the 20 basis point assessment remains in place until that act is passed and ABA is also urging banks to contact the FDIC to urge it to pursue alternative approaches. (To read the rule, [click here](#).)

To read a letter from FDIC Chairman Sheila Bair, [click here](#).)

Banks can use ABA's automated system to produce a customized letter. (Click [here](#) to go to the relevant page on [aba.com](#).)

ABA will get further input from bankers at a members-only conference call Monday, March 9. (To become a member, [click here](#) for information.)

What bankers are saying

Banker "prescribers" for ABA Banking Journal's "Pass the Aspirin" feature were asked three questions in a comment request sent out Thursday, March 4: How big an impact will this have on your bank? Where will your bank find the money to pay the emergency charge? And, what other concerns does this raise?

Here's what the first ten responding bankers told us for "Pass the Aspirin"; the following is based on excerpts from the bankers' full answers.

Opinions are running hot, to say the least.

Arizona banker Michael Hannley said that the special assessment would "basically wipe out my earnings for the year." His bank, \$190 million-assets Bank of Tucson, opted in for FDIC's offering of insurance for transaction accounts over \$250,000.

"Now I wish I had opted out," said Hannley. He added that to trim the cost of the special assessment, the bank would seek to reduce liquidity as much as possible.

"FDIC should not assess the banks at this time," said Hannley. "It should get a guarantee from the government, as other entities are, he suggested.

"We have no subprime loans, not one house loan that is past due, and have not had a home foreclosure in many

years," said Terry Zeltinger, president of \$177.1 million-assets United Community Bank, Minot, N.D. He expects the special assessment to cost his bank \$130,000, and will have to cut deposit rates and hike fees and loan rates.

Charles L. Cavanagh, president at \$187.2 million-assets United Community Bank, Perham, Minn., said the impact will be significant on his institution.

"If we were to earn 1% on assets, our estimate is for this to be between 25% to 30% of net income in a normal year. Try factoring in building one's reserves [on top of that], and showing a profit may become difficult."

"Poor planning, and not well thought out," said W. Wesley Hoskins, president and CEO, First Community Bank, Corpus Christi, Texas. He expects that his \$224.5 million-assets bank will have to cut salaries and trim lending to make things work.

"The total lack of notice and the fact that it isn't risk-based in any manner are of deep concern to us," said Blair Hillyer, chairman, president, and CEO, First National Bank, Dennison, Ohio. First National has \$166 million in assets; Hillyer estimates that the special assessment will wipe out one-fourth of estimate 2009 earnings.

"Most banks are experiencing more credit quality weakness than they have in the past and they need to generate earnings to cover potential losses. Trying to recover such a large portion of the fund's reserve in the depths of the crisis may serve to make the crisis even worse," said Ken Burgess, president and CEO at \$317 million-assets First National Bank of Midland, Texas. "There has to be a way to spread the recapitalization of the reserve over a longer period of time in order that we can all work through this crisis in an orderly manner. This is not the time for panic."

Assessment isn't fair, bankers say

Lack of fairness was a theme that recurred.

At Luzerne Bank, in Pennsylvania, President and CEO Robert C. Snyder was fairly disgusted.

"The feeling among my banking friends is that taxpayers will pay this assessment at the 'too big to fail banks' level," said Snyder, "and the rest of us will be hung out to dry. Is this the beginning of a completely nationalized bank system? We compete with BofA, PNC, Wachovia, and some super regionals. Guess who is still lending money in our community?"

"What's fair about this?" asked Barry Williams, president and CEO, at \$234 million-assets First State Bank, New Braunfels, Texas.

"I am concerned about the fact that there is no differences made in the emergency amount between strong, top-rated, well-managed community banks whose lending standards do not change regardless of the economic environment and those other institutions that have participated in subprime lending and other questionable types of loans and, in turn, will be much more likely to require use of the FDIC insurance fund," said Larry Callais, president and CEO, M C Bank and Trust Co, Morgan City, La. The bank has \$260.2 million in assets.

Detailed estimates of cost impact

Texas banker Ken Burgess had already worked out the math in detail, and it wasn't pretty. He broke it down as follows, striking a chilling comparison at the end:

"The impact of the proposed one-time assessment will have about a 15% impact on our proposed budget for this year. We had already built in the expected increase in assessments for the year, based on what had been proposed last year. That figure, alone, was more than double what we paid in 2008 (\$330,000 vs. \$150,000). The one-time assessment will cost our bank about \$580,000, making our total assessment for the year approximately \$910,000 vs. the \$150,000 we paid last year."

Burgess added this: "To put that figure in perspective, our proposed assessment is about \$200,000 more than our aggregate loan losses since we started the bank in November 1998."

The Texan said that "this will put us in worse shape to cover other losses that might come our way in this current economic situation." He said that budgeted earnings were already down somewhat, due to expected shrinkage in net interest margin.

At \$230 million-asset Luzerne Bank, Bob Snyder said that the special assessment—approximately \$380,000—will cost his bank over 14% of its net income. "It will reduce our ROA for the year by about 12 basis points and could affect our dividend payout," said Snyder.

Louisiana banker Larry Callais was in the midst of preparing a report to his board on this matter when contacted by ABA BJ.

"The 20 basis emergency assessment will result in an assessment of \$454,000 based on our deposits today," said Callais. "Of course, the impact is much more than monetary. Almost three months into the year, all of the income and expense projections for the year are no longer valid. I realize that we make adjustments throughout the year, but to have this hit all of a sudden, based on June 30 figures, and payable in September, means an accrual of in excess of \$54,000 per month for the remaining months—an accrual that was not expected."

Callais estimated that the assessment equates to approximately 14% of his bank's 2008 after-tax income.

Paying for the emergency assessment

Bankers have been scrambling to figure out how to pay for the special assessment since it was announced.

"We will try to increase loan rates somewhat to account for this," said Ohio's Blair Hillyer, "but competition will probably keep any increases to a minimum. We will have to watch other expenses as well, but we were already doing that in anticipation of a down year."

Minnesota's Cavanagh said costs will come from earnings, with the "hope that capital levels remain high enough."

"They might have floated this proposal when taking TARP money was still an option," observed Cavanagh. "But given the public's perception of taking TARP, it would seem to be the lesser of two evils."

Louisiana's Callais saw no simple solution for his bank. "With a decrease in requests for loans; competition with some of the new guys on the block like GMAC Bank, which is paying higher-than-usual interest rates on CDs; and not much leeway on increasing non-interest income, due to competition and the like, it will be a challenge to come up with the right combination of things to make up for the unexpected expense," Callais said.

"This seems to be very anti-stimulus," said Minnesota's Cavanagh. "If one takes into account the capital that is being spent for this assessment and assume that a dollar of capital may support lending in a 10 to 1 ratio, it is very significant."

And then this from George Marx, CEO of Copiah Bank, Hazlehurst, Miss.: "This special assessment will amount to about 25% of our projected earnings for this year, and will be approximately \$245,000. It will simply have to come from earnings, which will be reduced by a like amount. Every bank CEO needs to make sure that all officers and as many employees as possible send an e-mail to Chairman Bair and the FDIC Board. If this is done, I think we have a shot at some relief on this matter." BJ

(Note: more bankers answers will be posted as they are collected. They will appear on www.passtheaspirinplus.com.)

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