

Brokered Deposits are NOT all Created Equal!

- Although ANOVA's wholesale and Reciprocal Deposits are correctly classified as "Brokered Deposits" and "Reciprocal Brokered Deposits" they are stable funding sources that originate typically from banks and their depositors seeking the protection of other well capitalized banks to secure their FDIC insurance – clearly fulfilling our claim of "Banks Supporting Banks".
- Under Dodd-Frank 12 CFR 327 NPR "Assessments"- For Tier I Banks <\$10 Billion Assets Under management there is no additional base or risk based assessment for these brokered deposits.

The definition of core deposits, generally considered relatively stable with a predictable cost, currently includes a \$100,000 threshold amount, which coincided with the previous deposit insurance limit. Banking associations have been urging the agencies to adjust the core deposit threshold to \$250,000 in response to amendments made to the Federal Deposit Insurance Act by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) that increase the FDIC insurance limit. The stability of deposits can be based, in part, on their insurance coverage. Deposits below the insurance limit would likely be more stable in difficult economic times because they have no default risk.

The Uniform Bank performance Report (UBPR) User's Guide pages III-16 & III-50 (December 2008) defines Core Deposits as "all demand and savings deposits including money market deposit accounts and NOW and ATS accounts, savings deposits, plus time deposits in amounts of less than \$100 thousand."

- Core Deposits - The sum of demand deposits, all NOW and ATS accounts, MMDA savings, other savings deposits, and time deposits under \$100 thousand. By definition this excludes public deposits >\$100,000. Banking associations are requesting the FDIC revise this threshold in light of Dodd-Frank to \$250,000. However, currently Core deposits are still by definition <\$100,000.
- Public Deposits in Demand Deposit Accounts > \$250,000 – are Noncore Liabilities and are reported on the Call Report on Schedule RC-E under Deposit Liabilities – "Uninsured deposits of states and political subdivisions in the U.S. which are secured or collateralized as required under state law."
- Brokered Deposits and Reciprocal Deposits - are also Noncore Liabilities and are reported on the Call Report on Schedule RC-E under Deposit Liabilities - "Fully insured brokered deposits". Reciprocal Deposits are also reported on the Call Report on

Schedule RC-O - Other Data for Deposit Insurance and FICO Assessments as “Reciprocal brokered deposits (included in Schedule RC-E, part I, Memorandum item 1.b)”.

Essentially the bank is exchanging collateralized Noncore Liabilities for Reciprocal Deposits that are fully FDIC insured brokered deposits – neither are Core Deposits.

ANOVA Product Comparison vs Collateralized Public Deposits

Small Risk Category I Institutions (<\$10 Billion AUM)				
	Core (AnovaCore)	ANOVA Whole Sale Deposits	ANOVA Reciprocal Deposits	Public Deposits >\$250k
Regulatory Classification	Core Deposits	Brokered Deposits	Fully Insured Reciprocal Brokered Deposits	Uninsured Deposits - US States/Political Subdivisions
Balance Sheet	Core Liability	Noncore Liability	Noncore Liability	Noncore Liability
Call Report	RC-E	RC-E (M.1.b&c)	RC-E (M.1.b&c) & RC-O(9.)	RC-E (M.1.e)
FDIC Insured	Yes	Yes	Yes	No
Requires Pledged Collateral	No	No	No	Yes
Interest Rates	Market Rates	Market Rates	Market Rates	Typically Preferred Rates
Initial Base Assessment Rate (*)	5-9 bps	5-9 bps	5-9 bps	5-9 bps
Special (Risk) Assessment Fee (*)	0	0	0	0
Cost of Collateral	0	0	0	10-20 bps (**)
Loss of Opportunity Cost (ROA)	0	0	0	56 bps (***)

* Assessment Rates - See below FDIC 12 CFR Part 327 RIN 3064-AD66 Notice of Proposed Rulemaking

** Variable depending on credit worthiness of bank

*** Based on National Average of ROA for Tier I Banks ROA

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 327

RIN 3064-AD66

Assessments, Assessment Base and Rates

AGENCY: Federal Deposit Insurance Corporation.

ACTION: Notice of proposed rulemaking and request for comment.

On November 24, 2010 The FDIC is proposing to amend its regulations to implement revisions to the Federal Deposit Insurance Act made by the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding the definition of an institution’s deposit insurance assessment base; alter the unsecured debt adjustment in light of the changes to the assessment base; add an adjustment for long-term debt held by an insured depository institution where the debt is issued by another insured depository institution; eliminate the secured liability adjustment; change the brokered deposit adjustment to conform to the change in the assessment base and change the way the adjustment will apply to large institutions; and revise deposit insurance assessment rate schedules, including base assessment rates, in light of the changes to the assessment base.

Assessment Base

The FDIC charges insured depository institutions (IDIs) an amount for deposit insurance equal to the deposit insurance assessment base times a risk-based assessment rate. Under the current system, the assessment base is domestic deposits minus a few allowable exclusions, such as pass-through reserve balances. An IDI currently reports its assessment base on a quarter-end basis; larger institutions (that is, those with \$1 billion or more in assets), all institutions chartered after December 31, 2006, and other IDIs that so choose, use daily averaging.

Assessment Rate Adjustments

The FDIC calculates an initial base assessment rate (IBAR) for each institution based on CAMELS ratings, a number of inputs derived from data that the institution reports on the Consolidated Reports of Condition and Income (Call Report) or the Thrift Financial Report (TFR), and, for large institutions that have long-term debt issuer ratings, from these ratings. Under the current system, an institution’s total base assessment rate can vary from the IBAR as the result of three possible adjustments. An institution’s total base assessment rate may be lowered from its IBAR by an amount determined by its ratio of long-term unsecured debt to domestic deposits and, for small institutions, certain amounts of Tier 1 capital to domestic deposits (the unsecured debt adjustment). This potential decrease in initial base assessment rates is limited to 5 basis points. An institution’s base assessment rate may be raised by an amount determined by its ratio of secured liabilities to domestic deposits (the secured liability adjustment). An institution’s ratio of secured liabilities to domestic deposits (if greater than 25 percent) increases its assessment rate, but the resulting base assessment rate after any such increase can be no more than 50 percent greater than it was before the adjustment. The secured liability adjustment is made after any unsecured debt adjustment. Finally, an institution’s base assessment rate may be raised by an amount determined by its ratio of brokered deposits to domestic deposits (the brokered deposit adjustment) for institutions in Risk Categories II, III or IV. An institution’s ratio of brokered deposits to domestic deposits (if greater than 10 percent) increases its assessment rate, but any increase is limited to no more than 10 basis points.

Assessment Rates

The FDIC last amended the assessment rate schedule in 2009. The 2009 assessments rule established the following initial base assessment rate schedule:

TABLE 1—CURRENT INITIAL BASE ASSESSMENT RATES

	Risk category				
	I *		II	III	IV
	Minimum	Maximum			
Annual Rates (in basis points)	12	16	22	32	45

* Initial base assessment rates that are not the minimum or maximum rate vary between these rates.

After applying all possible adjustments, minimum and maximum total base assessment rates for each risk category are as set out in Table 2 below. The 2009 assessments rule also allowed the FDIC Board to adjust rates uniformly by up to 3 basis points above or below the total base assessment rates without notice-and-comment rulemaking, provided that no change from one quarter to the next in the total base assessment rates may exceed 3 basis points.

TABLE 2—CURRENT TOTAL BASE ASSESSMENT RATES *

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial base assessment rate	12–16	22	32	45
Unsecured debt adjustment	(5)–0	(5)–0	(5)–0	(5)–0
Secured liability adjustment	0–8	0–11	0–16	0–22.5
Brokered deposit adjustment		0–10	0–10	0–10
Total base assessment rate	7–24	17–43	27–58	40–77.5

* All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate vary between these rates.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires that the FDIC amend its regulations to redefine the assessment base used for calculating deposit insurance assessments. Specifically, the Dodd-Frank Act directs the FDIC:

To define the term ‘assessment base’ with respect to an insured depository institution as an amount equal to—

(1) the average consolidated total assets of the insured depository institution during the assessment period; minus (2) the sum of—(A) the average tangible equity of the insured depository institution during the assessment period, and (B) in the case of an insured depository institution that is a custodial bank (as defined by the Corporation, based on factors including the percentage of total revenues generated by custodial businesses and the level of assets under custody) or a banker’s bank (as that term is used in (12 U.S.C. 24)), an amount that the Corporation determines is necessary to establish assessments consistent with the definition under the Federal Deposit Insurance Act for a custodial bank or a banker’s bank.

This proposal is being made simultaneously with the proposal to change the assessment system for large institutions, which proposes to eliminate risk categories for these institutions. The FDIC, therefore, is proposing to amend the brokered deposit adjustment to apply to all large institutions. For small institutions, the adjustment, as modified above, would continue to apply only to those in risk categories II, III, and IV. Small risk category I institutions would continue to be excluded; brokered deposits remain, however, a factor in the financial ratios method used to determine the IBAR for small risk category I institutions experiencing high growth rates.

Effective April 1, 2011, the FDIC proposes to set initial and total base assessment rates for IDIs as described in Table 3 below.

TABLE 3—PROPOSED INITIAL AND TOTAL BASE ASSESSMENT RATES *

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and highly complex institutions
Initial base assessment rate	5–9	14	23	35	5–35
Unsecured debt adjustment**	(4.5)–0	(5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment		0–10	0–10	0–10	0–10
Total Base Assessment Rate	2.5–9	9–24	18–33	30–45	2.5–45

* Total base assessment rates do not include the proposed depository institution debt adjustment.

**The unsecured debt adjustment could not exceed the lesser of 5 basis points or 50 percent of an IDI’s initial base assessment rate; thus for example, an IDI with an IBAR of 5 basis points would have a maximum unsecured debt adjustment of 2.5 basis points and could not have a total base assessment rate lower than 2.5 basis points.

NOTE – Definitions

Small institution. An insured depository institution with assets of less than \$10 billion as of December 31, 2006, and an insured branch of a foreign institution shall be classified as a small institution.

Large institution. An institution classified as large for purposes of § 327.9(d)(9) or an insured depository institution with assets of \$10 billion or more as of December 31, 2006 (other than an insured branch of a foreign bank or a highly complex institution) shall be classified as a large institution.

Once the reserve ratio reaches 1.15 percent, the October NPR proposed to lower assessment rates so that the average assessment rate would approximately equal the long-term moderate, steady assessment rate discussed above. The table presented below supersedes the table presented in that NPR, and sets forth the following rate schedule that would be applied to the assessment base proposed above:

TABLE 4—(SUPERSEDING TABLE 3 OF THE OCTOBER NPR) INITIAL AND TOTAL BASE ASSESSMENT RATES*
[Effective for the quarter beginning immediately after the quarter in which the reserve ratio meets or exceeds 1.15 percent]

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and highly complex institutions
Initial base assessment rate	3–7	12	19	30	3–30
Unsecured debt adjustment**	(3.5)–0	(5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment .....	.....	0–10	0–10	0–10	0–10
Total Base Assessment Rate	1.5–7	7–22	14–29	29–40	1.5–40

* Total base assessment rates do not include the proposed depository institution debt adjustment.

** The unsecured debt adjustment could not exceed the lesser of 5 basis points or 50 percent of an IDI's initial assessment rate; thus, for example, an IDI with an initial base assessment rate of 3 basis points would have a maximum unsecured debt adjustment of 1.5 basis points and could not have a total base assessment rate lower than 1.5 basis points.

Proposed Rate Schedule Once the Reserve Ratio Reaches 2.0 Percent. The October NPR also proposed rates that would come into effect without further action by the FDIC Board when the fund reserve ratio at the end of the prior quarter meets or exceeds 2 percent, but is less than 2.5 percent. Again, the FDIC proposes to supersede that rate schedule in line with the changes to the assessment base, assessment rates, and adjustments proposed in this NPR according to the following table:

TABLE 5—(SUPERSEDING TABLE 4 OF THE OCTOBER NPR) INITIAL AND TOTAL BASE ASSESSMENT RATES*
[Effective for any quarter when the reserve ratio for the prior quarter meets or exceeds 2 percent (but is less than 2.5 percent)]

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and highly complex institutions
Initial base assessment rate	2–6	10	17	28	2–28
Unsecured debt adjustment**	(3)–0	(5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment .....	.....	0–10	0–10	0–10	0–10
Total Base Assessment Rate	1–6	5–20	12–27	23–38	1–38

* Total base assessment rates do not include the proposed depository institution debt adjustment.

Finally, the October NPR proposed rates that would come into effect without further action by the FDIC Board when the fund reserve ratio at the end of the prior quarter meets or exceeds 2.5 percent.¹⁸ As with the other proposed rate schedules, the FDIC proposes to supersede that rate schedule in line with the changes to the assessment base, assessment rates, and adjustments proposed in this NPR according to the following table:

TABLE 6—(AMENDING TABLE 4 OF THE OCTOBER NPR) INITIAL AND TOTAL BASE ASSESSMENT RATES*
[Effective for any quarter when the reserve ratio for the prior quarter meets or exceeds 2.5 percent]

	Risk category I	Risk category II	Risk category III	Risk category IV	Large and highly complex institutions
Initial base assessment rate	1–5	9	15	25	1–25
Unsecured debt adjustment**	(2.5)–0	(4.5)–0	(5)–0	(5)–0	(5)–0
Brokered deposit adjustment .....	.....	0–10	0–10	0–10	0–10
Total Base Assessment Rate	0.5–5	4.5–19	10–25	20–35	0.5–35

* Total base assessment rates do not include the proposed depository institution debt adjustment.

** The unsecured debt adjustment could not exceed the lesser of 5 basis points or 50 percent of an IDI's initial assessment rate; thus, for example, an IDI with an initial assessment rate of 1 basis point would have a maximum unsecured debt adjustment of 0.5 basis points and could not have a total base assessment rate lower than 0.5 basis points.