



Special Analysis

FDIC Special Assessment Funded by Lower Deposit Rates

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August 4, 2009

Introduction

On May 22, 2009, the FDIC Board of Directors adopted a final rule establishing a 5 basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The amount of the special assessment for any institution, however, will not exceed 10 basis points times the institution's assessment base for the second quarter 2009 risk-based assessment. The special assessment is necessary to strengthen the Deposit Insurance Fund and promote confidence in the deposit insurance system (FDIC letter May 22, 2009).

Analysis

We examined the fluctuation in the national average APY for deposit products to explore any variance pre and post the enactment of the FDIC Special Assessment on June 30, 2009. The national average APY consists of a sample of CDs and MM as follows: CD - Regular, 3, 6, 9, 12, 24, 30, 36, 48 and 60 months. CD - Special, 3, 6, 9, 12, 24, 30, 36, 48 and 60 months. MM - Regular and MM - Special.

The statistical analysis in this report is based on a convenience sample of 1,300 institutions as was determined by a-priori, two-tailed test. The t-Test was based on the following parameters: Alpha=0.05; Power=0.95; Effect size=0.20.

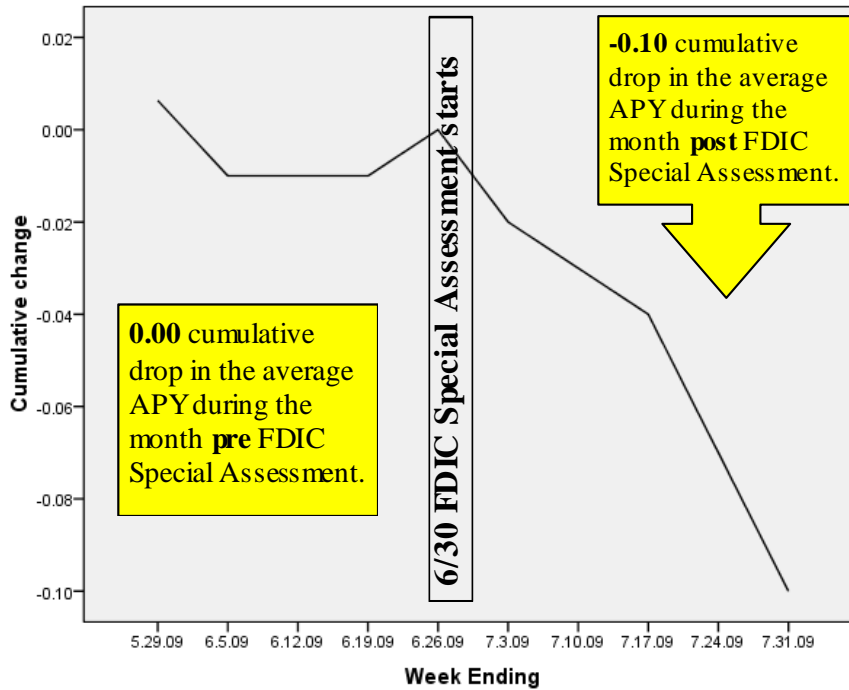
Findings

- We found that in the pricing month (5/29-6/26/2009) **prior to June 30, 2009** (FDIC Special Assessment enactment date) there was no variance (0.00) in the cumulative-national-average APY for deposit products (Figure 1).
- We found that in the pricing month (7/3-7/31/2009) **after June 30, 2009** (FDIC Special Assessment enactment date) there was a ten basis point drop (-0.10) in the cumulative-national-average APY for deposit products (Figure 1).

Implications

The timing and the amount of change in the national average APY of deposits makes it very probable that institutions are underwriting the FDIC Special Assessment with lower cost of funds for deposit products.

Figure 1
Change in National Average APY pre and post June 30, 2009



Source: Market Rates Insight

Table 1
Raw data

Week Ending	Avg. this week	Avg. Last week	Avg. Change	Cumulative change
5.29.09	1.76	1.75	0.01	0.01
6.5.09	1.73	1.75	-0.02	-0.01
6.12.09	1.73	1.73	0.00	-0.01
6.19.09	1.73	1.73	0.00	-0.01
6.26.09	1.74	1.73	0.01	0.00
7.3.09	1.71	1.73	-0.02	-0.02
7.10.09	1.70	1.71	-0.01	-0.03
7.17.09	1.69	1.70	-0.01	-0.04
7.24.09	1.66	1.69	-0.03	-0.07
7.31.09	1.62	1.66	-0.03	-0.10

Source: Market Rates Insight