

## BANK ADVISORY

### FDIC Premiums

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Dear clients and friends:

The Federal Deposit Insurance Corporation is preparing to raise deposit insurance premiums for insured banks to help restore its Deposit Insurance Fund to its required level.

The **FDIC on August 26** announced that it is planning that increase because its Deposit Insurance Fund's ratio of reserves to domestic deposits has fallen below its minimum requirement of 1.15 percent.

That ratio declined from 1.19 percent on March 31, 2008 to 1.01 percent on June 30, 2008.

The FDIC did not set a date for raising premiums. But it noted that the Federal Deposit Insurance Reform Act of 2005 requires it "to develop a restoration plan that will raise the reserve ratio to no less than 1.15 percent within five years."

The FDIC has a risk-based premium system and determines each bank's annual premium based on an assessment of its strength and potential risk. A bank's capital ratio and its **CAMELS** rating on safety and soundness are primary factors in the FDIC's determination of insurance premiums.

Since 2006, banks that are "well-capitalized" and have high CAMELS ratings of 1 or 2, on a scale of 5, have paid an annual insurance premium of between 5 cents and 7 cents per \$100 in domestic deposits. Banks with lower capital ratios and CAMELS ratings are paying higher premiums.

The FDIC fund's balance fell from \$52.8 billion to \$45.2 billion during this year's second quarter, due to an increase in bank failures. With more bank failures anticipated, community banks should begin estimating their possible increases in deposit insurance rates and determining how higher FDIC premiums will impact their overall operations.

If you would like more details on FDIC insurance premiums, please do not hesitate to contact us at (305) 373-5500.

Sincerely,



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