



FDIC Posts Assessment Rate Calculator Online

The second quarter of 2009 saw the dust finally settled for the FDIC's decision regarding the one time Special Assessments for insured institutions. In

the end, the FDIC decided to base the one time special assessment, not completely on domestic deposits, as originally proposed, but instead they decided they will

charge banks five-cents on bank assets less tier 1 capital as of June 30, 2009. The special assessment will be collected September 30, 2009. The final press release from the FDIC was made on May 22, 2009. The FDIC is posting a calculator to help banks determine their assessment. It can be found on the website by clicking "Assessment Rate Calculator – Final Rule Effective 4/1/2009," Press "Accept," select "Open," right click on "Assessment," select open," click on the tab that says "Special Assessment". ■



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"Hot Money": What is it?

The Power of Media Persuasion

In recent months some articles in the media have used the term "hot money" to describe Brokered CD deposits. But what does "hot money" mean, and where did this negative label come from? The term "hot money" implies that the money is in some way illegitimate, or that it could leave the bank at any given moment, vanishing into thin air. In reality there is no truth to either concept. DTC-Brokered CDs cannot leave the bank prior to maturity (unless an underlying customer passes away or is deemed incompetent by a court of law.) Other than under unusual circumstances like this, there is no early withdrawal and the money cannot leave the bank before maturity date. [It should be noted that the FDIC has never labeled brokered deposits as "hot money". This term has only been used in the media.]

The media has also implied that because brokered CD's cannot "roll over" into a new CD at maturity (a new CD must be issued to replace the previous one, rather than being "rolled over"), that this somehow proves they are "hot money". Similarly, the media has argued that because the buyer of a brokered CD is technically a client of the brokerage firm, and not of the bank, this prevents the issuing bank from doing "cross-over" sales of other products to that customer (such as selling checking and savings accounts, offering loans, etc.). But how this would make brokered CD's "hot" is not clear. The fact of the matter is, "replacing" a brokered CD is no more difficult than "rolling over" a direct CD. As has been demonstrated by thousands of community banks who have issued brokered CDs over the past 25 years, replacing a brokered CD with a new one at maturity is very simple. The market for brokered CDs is deep and mature, making it easy to replace maturing deposits irrespective of whether there is a "roll over" feature or not. Whether an investor wants to rollover his CD at maturity, or replace it with a new CD, does not affect the liquidity or the "hotness" of that money.

Brokered CD's Attract Smaller Investors

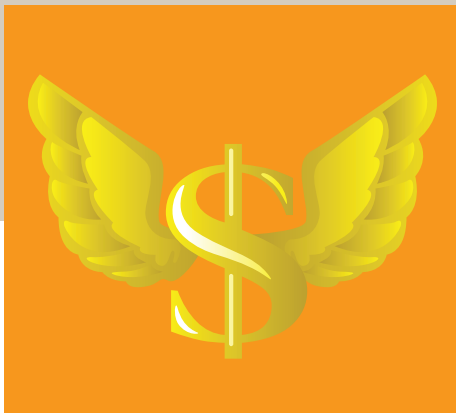
Some recent news articles have made misrepresentations about who the buyers of brokered CDs are, thus adding to their negative connotation of somehow being "hot". The average amount invested in brokered CDs by individual investors is only about \$30,000. Thus, brokered CD money is not coming from rich, sophisticated individuals looking for a haven to park their money, nor from major institutions and high-net worth individuals demanding to be paid excessively high interest rates. Rather, the purchasers are small investors who find it more convenient to purchase an FDIC-insured CD investment through their brokerage firm, than directly from

a bank. Not only does this allow investors to consolidate their investments and hold them under one custodian (instead of several), FDIC — insured CDs are a wonderful tool for diversifying a portfolio and helping small investors manage risk and reduce volatility.



Raising Deposits — A Favorable Cost Comparison

Does the cost of brokered CD deposits somehow make it "hot money"? It was recently established in market studies (which were presented to the FDIC in the form of a comment letter prepared by the



industry), that brokered deposits are not “High Cost” in comparison to the competition. The all-in cost a bank incurs for issuing brokered CDs is frequently lower than the cost for deposits they solicit through deposit-listing services, national advertising, etc. It’s also often lower than the cost they are charged for collateralized FHLB advances. A bank issuing a brokered CD incurs: (1) no overhead to attract and maintain the deposits, (2) no personnel to interact with customers, (3) no CIP obligations, (4) no statements or mailing costs, and (5) no tax reporting. Thus, the cost for brokered CD deposits is not necessarily “high” at all, leading to the question of why the media seems to uniformly slap them with the label of “hot money”. Upon inspection, such labeling appears contrived. The media’s assertion that banks have been forced to pay “unusually high rates” on brokered deposits (which in turn supposedly forced them to make bad decisions and make riskier loans), is also not universally true, nor borne out by all the data and available evidence.

It’s been said that the FDIC has lost money because some of the banking institutions which failed had too great a portion of their deposits in brokered CDs. Furthermore, it’s been said that the FDIC has found it difficult to attract buyers for those failed banks which had brokered deposits on their books, thus indirectly reinforcing the concept that brokered CDs are “hot money”. But of the 64 banks that failed this year, in only 23 cases did the FDIC have to come out-of-pocket at all to cover investors/owners. A majority of the time, (39 of 64 failed banks) the acquiring institution bought ALL of the failing banks deposits, without cost or loss to the FDIC.

It has also been implied that weaker and lower-quality banks with poor credit quality were the ones most likely to utilize brokered CDs, which in turn contributed, at least in part, to their demise and failure. But an analysis of brokered deposits by IDC Financial Publishing, Inc., a firm that analyzes financial institutions’ credit quality, showed that insured institutions which are rated “Superior” or “Excellent” — the two highest credit ratings assigned by IDC — are more likely to utilize brokered deposits than lower-rated institutions. This data contradicts the notion that brokered deposits contributed to, or caused the failure of, lower credit-quality institutions.

Do Brokered CD’s Qualify as ‘Hot Money’?

In a nutshell, the media has skimmed lightly over the surface of the real problem: The losses which many banks have experienced were derived from the quality of the loans and investments they made, not from the kind of deposits they took in. Based on a closer inspection of facts and details, it would appear that DTC - brokered CDs, in and of themselves, hardly qualify as “hot money”. Rather, this label was created and perpetuated by the financial media in order to give easy explanations for why the banking system failed, instead of delving deeper to truly understand the underpinnings of what went wrong in the industry.

Looking the situation in the face, we can see that everyone has been affected by the financial and economic crises of the past year — that goes without saying. But seeking scapegoats and pointing fingers at instruments like brokered CDs does little to solve the problems at hand. Finance 500 recognizes that brokered CD deposits do represent a viable and valuable tool in meeting the funding needs of community banks nationwide, and we will continue to assist our banking clients in meeting their capital needs and maintaining stability in the financial marketplace during these more-volatile times.

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Because good management is more often about managing risk than maximizing returns, our core investment philosophy is one of prudence and care. In addition to performing financial planning and retirement analyses, FAS runs risk-volatility tests and other ‘diagnostics’ on existing portfolios in order to measure the relative strength, diversification levels, and sensitivity of underlying assets to a variety of economic circumstances.

For accredited investors, FAS offers private funds that have posted exceptional returns compared to their benchmarks and other market indices. And for non-accredited investors, we offer risk-averse portfolios that provide broad diversification and active daily management. To find out more, and obtain a free consultation without obligation, please contact Debra Stroman at dstroman@finance500.com or call 800-477-6266.

