

Special Analysis

Impact of FDIC rate cap on banks in different pricing regions

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Implications

- Banks that are less than well capitalized will find it harder to compete on rates in nine states, where the highest rates offered are greater than the FDIC national average rate cap.
- The nine states are (from highest to lowest): WA, NC, CA, TX, FL, NV, ID, OR and MN.
- In the remaining states, less than well capitalized banks can compete on rates without exceeding the FDIC national average rate cap.

Overview

On January 1st, 2010, the FDIC final rule becomes mandatory. The FDIC Board approved a final rule on May 29, 2009, changing the way the FDIC administers its statutory restrictions on the deposit interest rates paid by banks that are less than well capitalized under Section 337.6 of the FDIC Rules and Regulations (see FIL-25-2009). The final rule redefines the national rate as "a simple average of rates paid by insured depository institutions and branches for which data are available" and deems the national rate to be the prevailing rate for all market areas. The FDIC rate cap allows the addition of up to 75 basis points to the FDIC national rate.

Purpose

The purpose of this analysis is to examine the variance between the FDIC national rate cap and the maximum APY offered in 50 pricing regions (50 US states) in order to identify pricing regions where the FDIC national rate cap has the most impact on institutions that fall under the mandatory restriction.

Analysis

- We obtained the FDIC national rate cap from the FDIC website as of 11.9.2009 (Figure 1).
- We averaged the FDIC national rate cap of the FDIC featured products, with a tier of \$100,000 or less, as follows: MM, CD 3 months, CD 6 months, CD 12 months, CD 24 months, CD 36 months, CD 48 months and CD 60 months.

- Since the FDIC national rate cap represents the maximum-allowed rate, we compared it to the maximum rates offered in each of the pricing regions.
- We obtained the US average maximum rates for the same products tier and terms from the Market Rates Insight database.
- We obtained the average maximum rates for each of the 50 US states, for the same products tier and terms, from the Market Rates Insight database.
- We compared the FDIC national average cap to the US average maximum rate and the average maximum rate in each one of the 50 pricing regions.
- This analysis is based on a 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 nine pricing regions (states), the FDIC national rate cap (1.98) is below the average maximum rate (Figure 2).
- We found that in the remaining pricing regions (states) the FDIC national rate cap (1.98) is above the average maximum rate (Figure 3).

Figure 1
FDIC national rates and rate cap as of 11.9.2009

Deposit Products	National Rate	Rate Cap
Money Market	.37	1.12
3 month CD	.44	1.19
6 month CD	.67	1.42
12 month CD	1.00	1.75
24 month CD	1.45	2.20
36 month CD	1.73	2.48
48 month CD	1.96	2.71
60 month CD	2.22	2.97
Average	1.23	1.98

Source: FDIC 11.9.2009

Figure 2
Pricing regions (states) with a maximum APY exceeding the FDIC rate cap

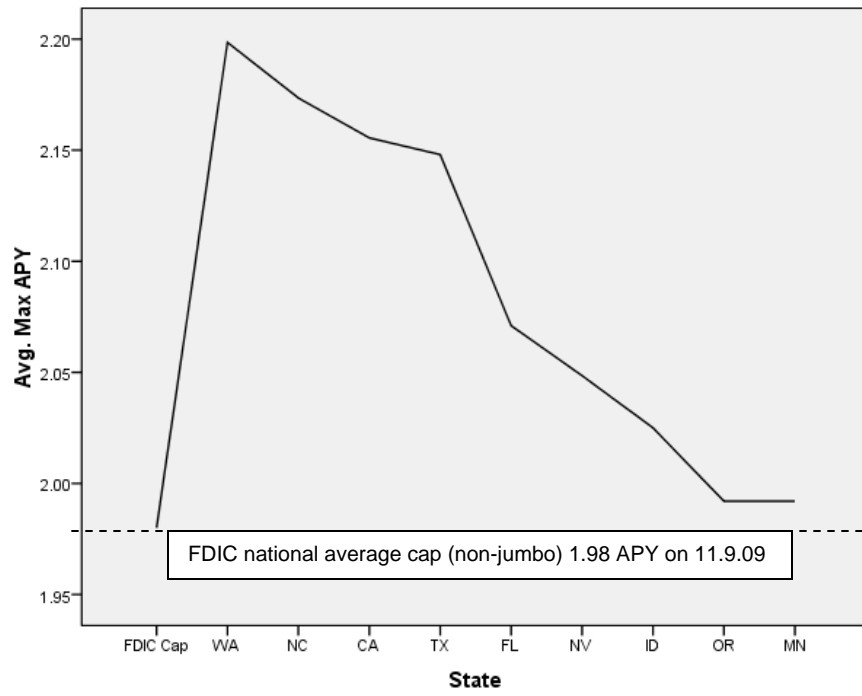


Figure 3
Pricing regions (states) with a maximum APY below the FDIC rate cap (partial list)

