



PREPAID FDIC ASSESSMENT

[FIL-63-2009](#) provides guidance on the FDIC's final rule requiring a prepaid assessment for the 4th quarter 2009 and all of 2010, 2011, and 2012. To read the entire FIL, visit www.fdic.gov and click on "Financial Institution Letters" under the News & Events menu.

In [FIL-63-2009](#), the FDIC announced it adopted a final rule requiring insured financial institutions to pay on December 30, 2009, their 3rd quarter 2009 assessment (as scheduled) and to prepay their quarterly risk-based assessments for the 4th quarter 2009 and for all of 2010, 2011, and 2012. The amount of the prepaid assessment will be included on the statement invoices for the 3rd quarter 2009, which will be available no later than December 15, 2009.

The FDIC will exempt certain banks from this prepayment; other banks may apply for an exemption by December 1, 2009, if the prepayment would significantly impair the institution's liquidity or would otherwise create extraordinary hardship.

Before the prepayment is due on December 30, 2009, each institution should verify it will have adequate liquidity to make this prepayment, which will be substantially higher than a normal quarterly assessment. To estimate the amount of the assessment today, banks can use the assessment calculator at: <http://www.fdic.gov/deposit/insurance/initiative/index.html>.

ACCOUNTING FOR THE PREPAID ASSESSMENT

For accounting purposes, the prepaid assessment should be recognized as a prepaid expense (asset). However, it will not be amortized on a straight-line basis like many other prepaid expenses. Instead, the FDIC will apply future insurance assessments against the prepaid balance, and the prepaid assessment should be reversed as those assessments are made. After the prepaid assessment is depleted, the bank will once again be required to pay subsequent insurance assessments.

The FDIC will continue to assess insurance premiums in arrears. For example, the assessment made by March 15, 2010, due by March 31, 2010, will be for the 4th quarter 2009.

Consequently, we recommend each institution maintain two general ledger accounts for the assessment that will be reported as one net prepaid expense. The first account will record the remaining amount of the prepaid assessment that has not yet been applied to quarterly assessments, which should be easily reconciled to quarterly FDIC statements. The second account will be a credit balance representing an estimate of the assessment that will be due for the current quarter.

ACCOUNTING FOR THE PREPAID ASSESSMENT (CONTINUED)

To illustrate the accounting for the prepaid assessment, assume the following:

- 3rd quarter 2009 assessment due December 30, 2009, is \$141,000
- Estimated 4th quarter 2009 assessment due March 15, 2010, is \$143,000
- The total estimated prepaid assessment due December 30, 2009, including the 4th quarter 2009 assessment, is \$2,251,000
- On December 30, 2009, prior to any assessment payments, the bank will have recognized an Accrued Assessment liability for \$284,000 (\$141,000 + \$143,000)

To recognize the payment made on December 30, 2009, for the 3rd quarter assessment, the bank would record the following entry:

Dr Accrued Assessment	\$141,000
Cr Cash	\$141,000

This will leave a remaining balance in the Accrued Assessment liability account of \$143,000, representing the estimated expense for the 4th quarter 2009.

To recognize the payment made on December 30, 2009, for the prepaid assessment, the bank would record the following entry:

Dr Prepaid Assessment	\$2,251,000
Cr Cash	\$2,251,000

This amount should equal the prepaid assessment reported on the FDIC statement.

Finally, to recognize the estimated 4th quarter accrued assessment as an offset to the prepaid amount (which includes the 4th quarter 2009), the bank would record the following entry:

Dr Accrued Assessment	\$143,000
Cr Current Assessment	\$143,000 (contra asset account)

(Alternatively, the bank could simply reclassify and report its Accrued Assessment account as an offset to the Prepaid Assessment account.)

The bank will report a prepaid assessment in its financial reports of \$2,108,000 (\$2,251,000 - \$143,000), which represents the net prepaid amount at December 31, 2009.

ACCOUNTING FOR THE PREPAID ASSESSMENT (CONTINUED)

The following table illustrates the preceding entries for 2009 and sample entries that would be made in the 1st quarter 2010:

Dr (Cr)	Prepaid Assessment Per FDIC	Current Assessment	Net Prepaid Assessment	Assessment Expense
Balance, September 30, 2009, 4 th quarter 2009 expense		(\$141,000) (143,000)		- \$143,000
Balance, December 30, 2009, before assessment		(284,000)		143,000
Assessment payment (Cr Cash)	\$2,251,000	141,000		-
Balance, December 31, 2009, 1 st quarter 2010 expense	2,251,000 -	(143,000) (145,000)	\$2,108,000 -	- 145,000
Balance, March 31, 2010, before assessment credit	2,251,000	(288,000)	1,963,000	145,000
Assessment credit from FDIC for 4 th quarter 2009	(143,000)	143,000		
Balance, March 31, 2010, after assessment credit	\$2,108,000	(\$145,000)	\$1,963,000	\$145,000

CONCLUDING THOUGHTS

The final rule requiring this prepaid FDIC assessment will affect almost all banks. Institutions should verify they will have adequate liquidity to make this large assessment payment by December 30, 2009. Management should also familiarize themselves with the accounting requirements of the prepaid assessment, particularly those related to the amount of premium assessment that has already been incurred but not credited against the prepaid balance.

CONTACT INFORMATION

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