Fitch Ratings Gives Opinion on Potential FATCA Drain of Foreign Deposits in Florida Banks

January 12, 2012 by Rosa Schechter

Fitch Ratings is an internationally known and globally respected ratings agency that began back in December 1913 as a New York publisher of financial statistics, but you may know it best as the first to use the "AAA" ratings system. Today, Fitch is recognized as an independent expert in the analysis of financial securities.

On January 6, 2012, Fitch issued its latest opinion on the impact that FATCA is already having on the American financial industry, in an article entitled, "New US Tax Rules Could Prompt Foreign Deposit Outflow."

Fitch Ratings acknowledges that Foreign Account Tax Compliance Act of 2010 (FATCA)'s future impact on U.S. banks is "tough to gauge" at this juncture. Most would agree; right now, with an effective date in 2013, the real result of FATCA is still unclear, it's a murky vision in a crystal ball.

Fitch sees a risk that lots of foreign deposits could leave the States if foreign deep pocket depositors not in favor of increased transparency seek to move their money out of American banks. Easy enough to do if they choose to do so.

Importantly for South Florida, Fitch points out two things: first, American banks are against FATCA and they have been fighting against it - if for no other reason than the financial industry is facing enough uncertainty in its future right now, and FATCA needlessly adds more fog on their horizon. As well as increased regulatory stress.

Fitch opines that low interest rates in the United States balance against the risk of rich, wealthy foreign banking customers having a FATCA bank run on U.S. banks. In Fitch's words, "...we feel a low interest rate environment would diminish any pinch felt by banks regarding current cost of funds stemming from foreign deposits."

As for Florida (along with California, Texas, and New Mexico), Fitch acknowledges there's a bigger risk for a big loss in foreign deposits, in part because Florida and these three other states "tend to rely heavily on community bank businesses versus larger institutional firms." Using estimates from the Florida Bankers Association (**$60-100 billion foreign deposits**), almost 20% of Florida's total deposits are foreign.

Given that one-fifth of the bank deposit pie, Florida in Fitch's opinion, should not be harmed: "...we feel the impact of a potential shift in foreign deposits for US banks would not be significant."

Let's hope that Fitch is right - because 20% of Florida bank deposits is a mighty big number.