

Table 17
Derivation of the 2004 and 2003 PSAF
(millions of dollars)

	<u>2004</u>	<u>2003</u>
A. Imputed elements		
Short-term debt ²⁷	\$ 0.0	\$ 0.0
Long-term debt ²⁸	\$ 0.0	\$ 0.0
Equity		
Total assets from table 14	\$17,215.8	\$15,511.2
Required capital ratio ²⁹	<u>5%</u>	<u>5%</u>
Total equity	\$860.8	\$775.6
B. Cost of capital		
1. Financing rates/costs		
Short-term debt	N/A	N/A
Long-term debt	N/A	N/A
Pre-tax return on equity ³⁰	18.6%	19.4%
2. Elements of capital costs		
Short-term debt	\$ 0.0	\$ 0.0
Long-term debt	0.0	0.0
Equity	\$860.8 x 18.6% = <u>160.1</u>	\$775.6 x 19.4% = <u>150.5</u>
	\$160.1	\$150.5
C. Other required PSAF recoveries		
Sales taxes	\$12.0	\$14.8
Federal Deposit Insurance assessment	0.0	0.0
Board of Governors expenses	<u>7.6</u>	<u>6.4</u>
	19.6	21.2
D. Total PSAF recoveries	<u>\$179.7</u>	<u>\$171.7</u>
As a percent of assets	1.0%	1.1%
As a percent of expenses ³¹	23.1%	22.4%
E. Tax rates	29.8%	30.4%

²⁷ No short-term debt is imputed because clearing balances are used as a funding source for those assets that are not funded with short-term payables.

²⁸ No long-term debt is imputed because clearing balances are used as a funding source.

²⁹ Based on the Federal Deposit Insurance Corporation's definition of a well-capitalized institution for purposes of assessing insurance premiums.

³⁰ One component of the pre-tax return on equity is based on the average after-tax rate of return on equity, adjusted by the effective tax rate to yield the pre-tax rate of return on equity for each bank holding company for each year. These data are then averaged over five years to yield the pre-tax return on equity for use in the PSAF. The final pre-tax rate of return on equity is determined averaging the result from this component (22.3%), along with results from a capital asset pricing model (12.2%), and a discounted cash flow model (21.3%).

³¹ System 2004 budgeted priced services expenses less shipping are \$779.3 million.