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A number of troubling issues were raised in the announcement of the 20 basis point emergency special assessment.

1. It is distressing that the Congress allowed the waiver of deposit insurance premiums during the recent strong economic period. This same mistake should not be allowed to recur. Premiums should be paid when times are good to cover costs when times are bad. That is such a simple premise it defies logic to do otherwise. The planned emergency assessment is no doubt necessary, but comes at a time when banks will have no choice but to alter their staffing and lending and community support to fund the payment – just the opposite of what should be done in difficult economic times.
2. It is even more distressing that consideration might be given to exempting troubled institutions, when these institutions are the primary cause of the special assessment. Under the present system all depository institutions should be treated equally regardless of condition. To do otherwise would convert the payment of deposit insurance premiums to a tax rather than an insurance premium.
3. Consideration in the future should be given to stratifying banks by size as well as condition in determining the rate of the insurance premium. Because of the size of the largest banks in the country, and their obvious troubled condition, it is simply not fair to expect that smaller institutions be expected to subsidize their potential for loss – particularly when those smaller institutions will be allowed to fail, and apparently the larger ones will be aided by the treasury. If a bank is too big to fail it is too big – to big to examine properly to assess risk, too big to manage properly and too much power - but that is an issue for another day. I strongly recommend that consideration be given to establishing “funds within the fund” that would be separately accounted for, for perhaps banks of up to $1 billion in assets, $1 – 10 billion in assets, and over $10 billion. Premiums should be established for the banks in those categories based on the experience and assessment of risk for banks within those categories of size. Premiums would therefore likely be different for banks of different sizes, but would be based on the risk in each size category – a fair program, and one that would be reflective of relative risk.
4. Assessments should be based on the risk-based program currently being used.
5. Assessments should be made to assure that the Insurance Fund is adequate to meet anticipated needs, and should not be capped at a rate some group might consider to be “fair” for the day.

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