IOWA BANKERS ASSOCIATION

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April 1, 2009

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

RE: Assessments, RIN 3064-AD35

Dear Mr. Feldman:

The Iowa Bankers Association (IBA) is pleased to comment on the proposed FDIC Deposit Insurance Fund (DIF) recapitalization plan. The Iowa Bankers Association represents 94 percent of commercial banks and savings institutions serving Iowans. We are one of the largest state banking associations in the country.

The FDIC's proposed twenty basis point special assessment could not come at a worse time for Iowa banks and their communities. Although 93% of Iowa banks were profitable in 2008, the special assessment alone would have reduced 2008 net profits by nearly 20%, or $87 million. The recession showed up later in Iowa than the rest of the country, but thanks to its global reach, declining sales of agricultural, financial services and industrial manufacturing products are beginning to take their toll on state GDP and employment. Iowa banks need all available resources to assist their customers in weathering the economic storm and in returning them to growth and prosperity.

Iowa bankers believe the DIF needs to be adequately funded by the banking industry. The FDIC brand means strength and stability to Iowans looking for a safe place to put their money during uncertain times. This brand identity has been earned by the FDIC and the banking industry over decades. At the same time, the IBA cannot adequately express the frustration our community institutions feel about the prospect of paying for the unprecedented mistakes of others. We support the efforts of Congress to establish a systemic risk regulator and to adequately fund a reserve through a systemic risk premium, covering the costs of such regulation and potential resolutions.

Since the FDIC announced the special assessment, a series of developments support elimination of, or at minimum a significant reduction in, the twenty basis points proposed. The IBA supports the Dodd-Crapo bill, Depositor Protection Act of 2009 (S.541), which would increase FDIC's line of credit with Treasury from $30 billion to $100 billion. FDIC Chairman Sheila Bair has indicated that, if this provision is enacted, the FDIC intends to cut the special assessment to ten basis points. In addition, the recently enacted TLGP surcharges are an important source of revenue to support DIF and should reduce the special assessment. The Treasury's Public-Private Investment Program (PPIP) is another source of revenue that should support the DIF, although Iowa bankers are very concerned about the additional risk exposure this poses to the fund.

The FDIC should consider other funding options that allow it to obtain needed resources without hitting banks with significant spikes in premiums. These options could include equity investments by banks in the FDIC or a FICO-like structure to issue bonds. It is important to note that banks would be solely responsible for all of the funds in either vehicle. Providing options that individual banks might choose from in order to meet their obligations should also be considered.

The FDIC should not have advance authority to charge additional special assessments of ten basis points in future quarters. Any additional funding for the FDIC should be subject to regular procedures, including notice and comment. Banks need to be able to plan expenses in order to make sound business decisions. Such optional assessments place a cloud over bank finances and raise havoc with banks' accounting and planning. If the FDIC needs additional capital beyond the current rule, it should look for alternative sources of funds – including using the Treasury line of credit.

The FDIC should assess premiums to recapitalize the fund over a reasonable period, keeping in mind the present need to keep capital in the system to increase stability and bolster lending. Recently, the FDIC extended the recapitalization period for the fund to return to 1.15 percent DRR from five years to seven years. The FDIC should consider extending the recapitalization period further. Should the $250,000 level of FDIC coverage be made permanent, the FDIC should extend the recapitalization period to 10 or 15 years.

Finally, the FDIC should manage its overall budget to limit expenses and be transparent. Pressures on the industry have forced banks to cut costs; the FDIC should do the same. The FDIC should continue seeking genuinely least-cost resolutions of failed banks and provide details so the industry and public understand the costs incurred.

Iowa banks are a major part of the solution to the economic ills facing their communities. They have been responsible lenders and community-minded leaders. It would be counter-productive to reduce the resources necessary for them to re-ignite growth and development at this critical time.

Thank you for considering our recommendations.

Sincerely,

John K. Sorensen, CAE
President & CEO

JKS/ml

Cc: Congressman Leonard Boswell
Congressman Bruce Braley
Congressman Steve King
Congressman Tom Latham
Congressman Dave Loebsack
Senator Charles Grassley
Senator Tom Harkin