From: Mark Schroeder [mailto:mark.schroeder@germanamericanbancorp.com]
Sent: Wednesday, April 01, 2009 7:44 PM
To: Comments
Subject: Assessments, RIN 3064-AD35

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April 1, 2009

Comments to FDIC

Dear Comments to FDIC:

As a community banker, I strongly agree with Chairman Bair that the recapitalization of the Deposit Insurance Fund should be paid for by the industry, and not the taxpayers. The issue, however, isn't whether the industry should be responsible to recapitalize the fund, but rather are the assessments needed to recapitalize the fund going to be determined in a fair and equitable manner?

The proposed 10-20 basis point assessment, based on the FDIC's traditional assessment basis of total domestic deposits, is NOT a fair and equitable approach. My bank, German American Bancorp based in Jasper, Indiana, is a good example of why utilizing total domestic deposits as an assessment base forces smaller banks and more conservatively managed banks to shoulder a disproportionate cost of the recapitalization.

Here at German American, we pride ourselves on our ability to run the Bank in a conservative manner. In that light, we have not participated in high risk lending and investment activities, such as construction and development lending, and we have funded our balance sheet by raising deposits in our local market rather than utilizing wholesale borrowings. A testament to the strength of our business model is reflected in the fact that, while much of the industry (particularly the largest institutions) had a horrendous year in 2008, German American Bancorp had the best year in our 100 year history and our credit quality measures are twice as strong as that of the average of our peers.

In spite of the fact that we represent a very low risk to the Fund, the approved regular assessments and proposed special assessments will increase our total FDIC cost by as much as nearly $3 million in 2008, or approximately 20% of our pretax earnings. Larger institutions and higher risk institutions, on the other hand, will not have to pay as nearly as high a FDIC cost, on a relative basis, despite representing a much higher risk (and in the case of the nation's largest institutions, a systemic risk) to the Fund and the national economy. This is due to the fact that the current assessment system based on total domestic deposits doesn't capture the inherent risk associated with funding their balance sheet thru wholesale borrowings and the reality that the largest "too big to fail" institutions essentially have all their deposits and all their liabilities insured at virtually no cost.

In order to address these inequities and to allow healthy well managed institutions, such as German American, to continue to support the economic recovery process in small cities and towns across America, I strongly urge the FDIC to take the following steps:

1) The special assessment and all future assessments should be based on total assets (minus tangible capital) of an insured institution, not its total domestic deposits, so that banks that caused the problems pay a bigger share. Since large banks hold a proportionately larger share of total banking assets, large banks should shoulder more of their fair share of the special assessment. The amount of assets that a bank holds is a more accurate gauge of an institution's risk to the DIF than the amount of its deposits. A bank doesn't fail because of its deposits, it fails due to bad asset quality, and all forms of liabilities, not just domestic deposits, fund a bank's assets.

2) The FDIC and Congress should support a systemic-risk premium for the large, "systemically important" banks. This premium should be large enough to pay for the substantial risk of insuring these "too-big-to fail" institutions.

3) The FDIC should explore all alternatives for funding the Deposit Insurance Fund in lieu of the special assessment (either fully or partially) including using its existing authority to borrow from the Treasury, issuing debt instruments to the public, or using its authority to borrow from the banking industry. The DIF would still be industry-funded if the FDIC used its borrowing authority, but the industry would be able to pay the cost of recapitalizing the DIF over time.

Community banks, like German American Bancorp, are well-capitalized, common-sense lenders that didn't contribute to the current economic crisis, yet we are the ones being asked to pay a hefty price through the proposed special assessment to correct the mistakes of the high-risk institutions that did contribute to the nation's and the industry's current economic woes . Please don't hinder the ability of our nation's well-managed community banks to continue to do what we have done very well (fostering economic growth in our communities by lending to local businesses and consumers in a safe and sound manner) by depleting our capital base through unfair and inequitable FDIC assessments.

Sincerely,

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