JIM BUNNING
KENTUCKY

COMMITTEES:
FINANCE
ENERGY AND NATURAL RESOURCES
BANKING, HOUSING, AND URBAN AFFAIRS
BUDGET

United States Senate

WASHINGTON, DC 20510

WASHINGTON OFFICE:
316 HART SENATE OFFICE BUILDING
WASHINGTON, DC 20510
(202) 224-4343

MAIN KENTUCKY OFFICE:
1717 DIXIE HIGHWAY, SUITE 220
FORT WRIGHT, KY 41011
(859) 341-2602

March 30, 2009

The Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Dear Chairman Bair:

I am writing to continue the discussion we had at the hearing of the Senate Banking Committee on March 19, regarding assessments to replenish the Deposit Insurance Fund (DIF).

As I explained to you at the hearing, the proposed special assessment would be devastating to community banks in Kentucky. As originally proposed, the 20 basis point assessment would cost Kentucky banks approximately $132 million. Of that total, $80 million would come from state-chartered banks. Combined with the increased regular assessment, taxes, and other payments, the special assessment will consume the entire projected earnings for many banks in the Commonwealth.

While it is not your job or mine to ensure the profitability of the banking industry, as policymakers we must take into account the total effect of our actions. We are in the middle of a financial crisis caused in large part by major financial institutions and some irresponsible smaller firms, not community banks. Yet the special assessment would hit those community banks the hardest and have the perverse effect of punishing those who acted responsibly for the sins of those who did not.

Also, one of the consequences of the financial crisis is a reduction of credit, which is prolonging and deepening the recession. Many of the nation's largest financial institutions are under severe pressure and have restricted lending as they build capital and shrink their balance sheets. The secondary market and so-called "shadow banking sector" have all but disappeared. But community banks continue to be a source of capital for Kentucky and the nation, and it makes little sense to remove a source of precious capital at this time. However, that would be the effect of a 20 basis point special assessment, and doing so will only delay the recovery.

I urge you to reconsider the assessment and its impact on banks and lending. Some alternatives that have been suggested are 1) borrowing from TARP for the DIF shortfall, to be repaid by premiums over time; 2) extending the assessments over a longer period of time; 3) borrowing from the Treasury using the existing line of credit; and 4) risk weighting the assessments. Please consider these and other options to reduce the penalty on Kentucky's community banks and their customers. Thank you for your attention to this matter.

Best personal regards,

Jim Bunning

JIM BUNNING
United States Senator

HAZARD OFFICE:
601 MAIN STREET
SUITE 2
HAZARD, KY 41701
(606) 435-2390

HOPKINSVILLE OFFICE:
1100 SOUTH MAIN STREET
SUITE 12
HOPKINSVILLE, KY 42240
(270) 885-1212

LEXINGTON OFFICE:
771 CORPORATE DRIVE
SUITE 105
LEXINGTON, KY 40503
(859) 219-2239

LOUISVILLE OFFICE:
600 DR. MARTIN LUTHER KING JR. PLACE
ROOM 1072B
LOUISVILLE, KY 40202
(502) 582-5341

OWENSBORO OFFICE:
423 FREDERICA STREET
ROOM 305
OWENSBORO, KY 42301
(270) 689-9085

Toll-Free 1-800-283-8983
http://bunning.senate.gov