From: Ronald Nix, Jr [mailto:ronald.nix@gmail.com]
Sent: Sunday, March 15, 2009 2:29 PM
To: Comments
Subject: Assessments, RIN 3064-AD35

Ronald Nix, Jr
9058 CR 352E
Henderson, TX 75654-7509

March 15, 2009

Comments to FDIC

Dear Comments to FDIC:

Texas community banks neither participated in nor profited from the absurd excesses that so significantly contributed to the present economic malaise. With that said, they are still paying a heavy price, with increased deposit insurance premiums, stressed real estate markets, rising unemployment, an irrational deposit marketplace with new and liquidity starved banks offering ridiculous rates, strained net interest margins and anxious customers and regulators. As you can likely surmise, there is little appetite among our members to be supportive of a special assessment at this juncture. While we are appreciative of the Congress looking to expand the FDIC borrowing authority from 30 billion to 100 billion which would perhaps reduce the FDIC assessment to 10 basis points, we strongly urge you to consider other options to reduce the earnings impact of all community banks as follows:

- It seems somewhat counterintuitive to take away capital from those very
banks who continue to lend to their local consumers and businesses. As we all understand leverage, each dollar spent elsewhere equates potentially to some $8 in loans to generate economic activity that simply will not happen. When extrapolated across the country among some 8,000 community banks, this will no doubt have a detrimental impact on lending activity throughout our nation. What sense does that make at a time when we need to be encouraging lending activity in this economy?

- Given the strains on earnings already in play, this special assessment will be especially painful. As discussed previously, shrinking net interest margins created in part by federal government intervention, increased loan loss provisions, extremely low interest rate environments and increasing costs have created some very real challenges to many of our historically well run community banks. Adverse consequences include curtailment of contributions to local charities, cutting back on employee training, delaying or canceling expansion plans and even staff reductions in some instances.

- The FDIC Board has no doubt weighed the options of expanded borrowing authority through the Treasury as well as creation of some type of debt instrument. The FICO model may have some efficacy, as could a special issue of debt purchased by the banks, and should be considered as an option to a special assessment.

• If a special assessment is unavoidable, several options, or combinations thereof, could potentially mitigate some of the damage to the community banking industry.

o An assessment based upon assets, with an adjustment for capital, would rightfully place more of the burden on those who have more culpability in this current economic downturn. We have argued for years that the "too-big-to-fail" banks receive greater value for their FDIC premiums. It would appear to be time to recognize that inequity. o A "systemic risk" premium should strongly be considered, both for this pending special assessment as well as ongoing FDIC premiums. o An ability to amortize this extraordinary expense over several years would be most helpful. If FASB has an issue with this, Congress can clearly override, and should do so.

• Finally, the FDIC Board as well as Congress should seriously consider the "bifurcation" of the industry to recognize the ever-widening chasm between community banks and the money center and super-regional financial services conglomerates. The distinctions between these two divergent groups have never been more obvious. We believe that a well-capitalized population of community banks, with appropriate regulatory oversight, poses minimal risk to the system or the fund, and would go so far as to encourage discussion of a separate insurance fund for community banks.

We certainly understand the challenges faced by the FDIC in these troubled times, and appreciate the difficulty of the decisions facing the FDIC Board. Additionally, we are grateful for both the open communication throughout this process, and your thoughtful consideration of our comments on this critical issue.

As a community banker, I am deeply disappointed by the FDIC Board's proposal to impose a special assessment on all insured institutions as of June 30, 2009. Whether the special assessment is 10 or 20 basis points, this assessment, when combined with our bank's regular 2009 assessment, will be detrimental to our earnings and capital and will have an adverse effect on our ability to lend money and serve our community.

Community banks are being unfairly penalized with this assessment. We didn't participate in the risky practices that led to the economic crisis, yet we are being penalized with this onerous special assessment on top of regular assessments that are more than double those of last year. The community banking industry is the bright spot in this current economic storm. The vast majority of community banks are well-capitalized, common-sense lenders that want to help in the economic recovery process in cities and towns throughout America. This special assessment will only hinder our ability to do so by reducing our ability to lend.

I strongly urge the FDIC:

* To explore all alternatives for funding the Deposit Insurance Fund in lieu of the special assessment 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.

If the FDIC proceeds with imposing this special assessment, I urge the following:

* 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 deposits, fund a bank's assets.

* The FDIC should support a change in the accounting rules to allow banks the opportunity to amortize the special assessment over a period of years. If the banks could amortize the special assessment over several years, for instance, this would significantly reduce its impact.

* 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.

Again, I urge FDIC to explore all alternatives for funding the DIF in lieu of the special assessment. The community banks in this country did not cause this crisis but yet they will pay a hefty price if this special assessment is imposed.

Sincerely,

Ronald W. Nix Jr.
903-889-2336