From: Swearingen, Douglass J [mailto:dswearingen@advantagebank.com]
Sent: Thursday, March 12, 2009 3:14 PM
To: Comments
Subject: Special Assessment

Please reconsider the special assessment as a way to recapitalize the FDIC fund.

Ohio banks understand the importance of a strong deposit insurance fund, and want to work with the FDIC to recapitalize the fund as soon as possible, but a 20 basis point special assessment this year will be counterproductive to President Obama's economic recovery plan, will unnecessarily erode bank capital and will suck millions of lendable funds out of Ohio communities.

As a whole, Ohio depository institutions made only 57 basis points on assets last year, and so far this year does not look like it will be any better. This special assessment is significant and will impact every corner of my community. It is unfair and harmful to burden a healthy bank like mine that is best positioned to help the economy recover.

The drag on lending will be greater than it first appears and likely greater than any of your models. Many banks will inevitably make the decision to shrink the bank to lower the impact of this special assessment. There is one Ohio community bank that is already turning away new depositors. This will create a disincentive to lending, working at cross purposes with the President's stimulus package.

Most banks in Ohio, including mine, did not make subprime loans. Many of our challenges in 2009 will be more closely tied to our declining manufacturing economy. As a result our cost structure is already challenged, so any further cuts will come in the area of capital spending or even employees further slowing any recovery here in the Midwest.

We applaud your revised plan that will only take half of the assessment proposed in the rule as released, but we urge you to continue to consider other alternatives. We think it is a good idea that you have already extended the recapitalization period from five to seven years and support your initiative to take it up to eight years in these troubled times. We would urge you to consider other alternatives that would moderate the adverse impact of recapitalizing the fund.

First, we suggest that the FDIC more actively use the line of credit at the U.S. Treasury. The current environment is exactly the situation the line of credit was set up to address, spreading out the cost of recapitalization over a longer period of time. If it would help with the politics, you could contractually commit future FDIC revenues to pay off the loans, almost like revenue bonds. Recapitalizing the fund remains the obligation of the banking industry anyway.

Second, Use a convertible debt option, whereby the FDIC could convert debt borrowed from the banking industry into capital to offset losses if it needs the funds. This would allow banks to write off the expense only when the funds are actually needed.

If the proposed assessment is put into effect, it may have the opposite effect that is intended. More banks will fail and the remaining ones will shrink their assets, resulting in less money for the fund.

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