



March 9, 2009

VIA E-MAIL at Comments@FDIC.gov

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: RIN #3064-AD35
Interim Rule on Emergency Special Assessment

Dear Mr. Feldman:

Citizens Republic Bancorp is the 42nd largest bank holding company in the United States headquartered in MI with additional offices in various communities in Wisconsin, Iowa and Ohio. I appreciate the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) interim rule to impose a 20 basis point emergency assessment under 12 U.S.C. 1817(b)(5) on June 30, 2009. The interim rule also allows the FDIC Board to impose possible additional special assessments of up to 10 basis points thereafter to maintain public confidence in the Deposit Insurance Fund (DIF).

I greatly appreciate and support the efforts of FDIC to maintain appropriate levels in the DIF during these challenging times and in following a least-cost approach in its resolution activity so as to not unnecessarily jeopardize the DIF levels. I further appreciate the changes the FDIC made to its proposed DIF restoration plan to address several concerns raised by the banking industry.

I understand that we are in extraordinary times and I recognize that difficult times still remain ahead of us. However, I believe that the one-time special assessment of 20 basis points, coupled with the possibility of another special assessment of up to an additional 10 basis points soon thereafter, as set forth in the interim rule, must be changed. Such a huge, one-time expense will negatively affect consumer and business customers of banks as our institutions would be absorbing that significant expense on top of already increased regular quarterly premium assessments, in addition to the extra premiums paid for participation in the Temporary Liquidity Guarantee Program (TLGP), all at a time when our banks' balance sheets are stressed due to the effects of this deepening recession.

While I appreciate FDIC's attempts and interests in not having the entire banking industry being painted with a "bailout brush," I believe this has already occurred and if FDIC borrows money from its line with Treasury to help recapitalize the DIF, that action will not adversely affect the already negative perception about banks. Unfortunately from President Obama, to members of Congress, the media and the public, "everyone" believes it is permissible to bad mouth "banks." Very few seem to care to distinguish between the well-run banks and the investment banks and others that really helped to cause the economic crisis we are experiencing. At this point, it is more important to look to diverse resources or use different methods than those set forth in the interim rule to recapitalize DIF, rather than continue to punish the industry in the manner this one-time 20 basis point assessment would.

The interim rule seeks comment on several questions. Below are my responses to those questions in the order set forth in the interim rule.

Should the June 30, 2009 special assessment be at a rate other than 20 basis points?

It is difficult for me to directly answer this question without better understanding the scope of the anticipated losses to the DIF over the next couple of years. Based on Chair Bair's comments during a conference call with the American Bankers Association, I understand that FDIC expects \$65 billion of losses over the next five years, with much of those losses occurring on the front-end. If this were to be true, I understand the need for a special assessment sooner rather than later and 20 basis points may be the proper amount. In response to this direct question, I would just ask FDIC to be sure that they are choosing a figure that is at the bottom of any range of numbers calculated for this purpose. If all that is really necessary at this time is 10 basis points, then I obviously would suggest a change to 10 basis points rather than 20 basis points. Moreover, I would expect the FDIC to refund some or all of this special assessment back to the contributing institutions if it were to turn out that part or all of it was not needed because the losses to the DIF in reality were less than currently projected.

Nonetheless, I believe it to be unnecessary to collect the entire special assessment, whether it is 20 or 10 basis points, in one single payment. While I understand that this is not a payment that can be spread out over years due to the anticipated need for this money in the next 18 months, I question why the special assessment could not be spread out over at least two, if not three quarters beginning September 30, 2009. In addition to spreading the cost out over a few quarters, it is critical to try and spread the cost out over two different tax years. Most banks operate on a calendar year basis so a special assessment split in half, with the first half due on September 30, 2009 and the second half on March 31, 2010 would be more tolerable than what is currently set forth in the interim rule. Handling the special assessment in this fashion will be of benefit to banks in that it is not such a significant hit to a bank's balance sheet in one earnings year, and it still accomplishes the stated goal of getting money into the DIF "soon."

I would also like to see the FDIC consider changing the assessment base to truly be more of a risk-weighted approach than even what is used in the current risk based approach for regular assessments. Please see our comments below for further discussion of this concept.

Should there be a maximum rate that the combination of an institution's regular quarterly assessment rate and a special assessment could not exceed?

Without question, the triple hit of increased regular quarterly assessments, this one-time special assessment and the extra premiums paid for participation in the TLGP will have a compounded, significant negative effect on banks' earnings in 2009. That is in part why I suggest spreading the special assessment out to quarters that occur in two different tax years, or drawing on the line of credit with Treasury. If it is decided to move forward with the special assessment as outlined in the current interim rule, I would support a maximum rate for those institutions where the possible annual rate is close to 100 basis points. I suggest the rate be capped at a smaller amount so together, the maximum possible annual rate is no more than 50 basis points.

Should weaker institutions be exempted, in whole or in part, from the special assessment?

During this challenging economic time, this is a difficult question to answer. While I do not want to see financial institutions fail, it is difficult to say that institutions should be exempted from this special assessment just because they currently are weaker. The reality is that a special assessment of this size hurts all institutions, albeit to varying degrees. If FDIC would agree, at minimum, to spread the special assessment over a few quarters in both 2009 and early 2010 (assuming FDIC will not borrow from its line of credit with Treasury for this purpose), perhaps that change is enough to not push a weak institution into failure on the basis of the special assessment alone.

Should special assessments be assessed on assets or some other measure, rather than the regular risk-based assessment base?

I believe there should be a risk-based approach to special assessments just as there is to regular assessments. Given the rather immediate need for a special contribution to the DIF, I am hesitant to suggest a dramatic change in the formula for this particular identified assessment need. Rather, I would encourage the FDIC to make such a change in the future. At minimum, special assessments should be determined in the same risk-based fashion that regular assessments are calculated. Moreover, I would ask FDIC to consider modifying the current risk-based structure in such a way that rewards conservative practices and assesses higher premiums on those institutions with riskier operations that pose a potentially greater threat to the DIF. This would necessarily mean either switching to an assessment based on assets rather than deposits, or an assessment based on some combination of assets and deposits.

Should there be a special assessment of up to 10 basis points?

If, despite my earlier arguments, FDIC decides to continue its current approach of a special assessment on the industry (whether one time or spread out over a few quarters), I strongly believe that any additional assessments that may be necessary due to emergency circumstances should then come from the line of credit that FDIC has with Treasury. As previously stated, the industry is already painted with a "bailout brush" and drawing on that line, particularly if it is not used until or if this emergency point in time would be reached, does not further harm that perception. What will change that image is the growing ability of banks to lend money and be active participants in their communities and with local charities. Assessing the industry with large, one-time, unexpected expenses completely negates their ability to do as much of this. If such a future need should arise, it will be due to unexpected losses and that is the purpose of the line of credit with Treasury. Consequently, I strongly encourage FDIC to withdraw this portion of the interim rule and not have authority to assess up to an additional 10 basis points on the industry through a future special assessment.

Should FDIC assessments, including emergency special assessments, take into account the assistance being provided to systemically important institutions?

Without question, the FDIC assessments, including this special assessment, should take into consideration the assistance being provided to systemically important institutions. These institutions should be paying more for the benefit of FDIC insurance than other institutions who are healthy as they are already receiving the benefit of federal assistance.

Conclusion

I agree with FDIC that we need a strong, financially secure fund in order to maintain the confidence depositors have in the system. All institutions were affected in varying ways in helping financial institutions through the savings and loan crisis, and we are ready to support our industry through additional contributions to the DIF again if it is really needed.

Nonetheless, the timing of this special assessment, with the likelihood of another special assessment on the heels of the first one, as outlined in the interim rule, is disastrous for the industry. We are already in a deepening recession, are living with accounting rules that overstate economic losses and unfairly reduce capital, along with regulatory pressure to reclassify assets that continue to perform, on top of managing significant increases in regular quarterly FDIC premiums and the extra premiums for participation in TLGP. The one-time payment is very difficult for any one bank to absorb, particularly on top of new, higher premiums as part of the regular quarterly assessments. Of course, those most hurt by these huge expenses banks must pay are the customers. The high cost of deposits is a disincentive to raise new deposits. This coupled with other expenses means banks' ability to lend is reduced. Those loans that are made are likely made with higher interest rates and terms. Banks'

contributions to local charities will also necessarily be reduced. The national credit crisis will only continue and the economy will not quickly grow.

I strongly urge FDIC to consider lowering the amount of the special assessment, spreading out the assessment in the manner suggested above and repealing the provisions giving FDIC authority to collect up to an additional 10 basis point assessment if necessary in the future.

Once again, I appreciate the opportunity to comment on this very important interim rule. Thank you.

Sincerely,



Mark A. Fleshner

Region President – Wisconsin, Iowa and Upper Peninsula of Michigan