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March 7, 2016

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

Attention: Comments

RE: Notice of Proposed Rulemaking on Assessments (12 CFR Part 327), RIN 3064-AE37

Dear Mr. Feldman:

Central Bank & Trust Co. (Central Bank) appreciates the opportunity to respond to the notice of proposed rulemaking on "small bank assessments" from the Federal Deposit Insurance Corporation (FDIC). Central Bank is an FDIC-insured privately owned bank headquartered in Lexington, Kentucky with approximately $2.1 billion in assets.

Central Bank appreciates the changes made to the notice of proposed rulemaking in the Federal Register on July 13, 2015 (the 2015 NPR) as a result of the public comments. Central Bank supports the proposal's stated primary purpose, "to improve the risk-based deposit insurance assessment system applicable to small banks to more accurately reflect risk". As discussed below, we feel that some aspects of the proposal support this purpose and recommend that some be reconsidered, specifically the weighting of the Tier 1 Core Capital ratio and the loan portfolio mix index.

We appreciate that the FDIC has taken in to consideration issues raised by bankers in response to its earlier proposal to amend its Small Bank Assessments system. We feel the revised proposal made some positive changes, including a higher weighting for CAMELS component ratings and banding the Initial Base Assessment Rate by a composite CAMELs rating, replacement of a factor for core deposits for one for brokered deposits, and exclusion of reciprocal deposits from what would count as brokered deposits for most banks. We suggest further modifications be made relative to the following:

Loan Portfolio Mix Index

We are concerned about the proposed loan mix index and its impact on construction and commercial lending. The loan mix index does not adequately capture the risk since it is not an assessment of banks underwriting quality or risk management practices. The proposed index would be calibrated heavily to

experience during the spree of bank failures associated with the last recession. However, each period of elevated bank failures in the past has been largely unique, so it is likely that future bank failures may behave differently from the last recession. Using the loan portfolio mix indicate could be an incentive for some community banks to consider modifying their loan portfolios and could have the unintended consequence of encouraging banks to concentrate in certain loan categories and not in others. This could tighten certain types of credit unnecessarily, when in reality, none of us can accurately predict what is likely to lead to the next recession or increase in bank failures.

There are better measures of a bank's potential longer-run risk of failure than the proposed loan portfolio mix index. To more accurately reflect risk in the loan portfolio, a measure should consider the demonstrated ability of a bank to manage the risk. Thus, using each bank's historical asset quality measures such as delinquencies, non-performing ratios, and charge-offs, would provide a better measure of each bank's risk profile.

Weighting of the Tier 1 Core Capital Ratio

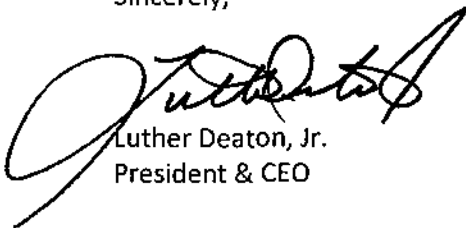
The draft weighting for the Tier 1 capital ratio in the re-proposed assessments formula is significantly higher than in the current formula, meaning that even a bank that meets all the standards of being "well capitalized" could pay significantly higher assessments. While having sufficient capital is very important, it is also critical to manage that capital effectively. Thus, banks that are "well capitalized" but employ their capital effectively and thus do not hold a lot of excess capital, would be penalized with this proposed formula even though they do not represent an elevated risk of failure.

Instead of basing measured risk and the related assessments using a fixed negative coefficient for the tier 1 leverage ratio, we suggest the weighting be much less. We recommend if the tier 1 leverage ratio exceeds 8 percent, the weighting should be zero and if the tier 1 leverage ratio exceeds the "well capitalized" minimum up to 8 percent, then we recommend the weighting be much less than proposed.

Conclusion

While we still have concerns about the proposed changes, we appreciate the opportunity to comment and we ask you to consider our recommendations. If you have any questions or would like additional information, please do not hesitate to contact Luther Deaton at 859-253-6184.

Sincerely,



Luther Deaton, Jr.
President & CEO