Subject: February 4, 2016 - Assessments - RIN 3064-AE37

Dear Mr. Feldman:

I am writing on my own behalf, and not on behalf of any other party, to comment on the Notice of Proposed Rulemaking (NPR) pertaining to revisions in how small banks are assessed for deposit insurance; RIN 3064-AE37, published in the Federal Register on February 4, 2016. I am submitting this comment in accordance with the requirements specified in the Federal Register notice. Further, I have appended to this comment, below the horizontal line, the comment I submitted on July 13, 2015, on the previous NPR on how small banks are assessed for deposit insurance. My comments below build off my earlier comment letter.

Geographic risk exposures: The revised NPR still lacks any recognition of the role that geography plays in bank failures -- bank failures are not and never have been spread evenly across the United States. Worse, the weighted charge-off rate percentages shown in the NPR's Table 6 reflect nationwide averages that vary greatly from state to state., such as from Florida or Georgia, which had numerous failures during the last banking crisis, to states that had few, if any, failures, such as the nine states that had no bank failures during the 2007 to 2015 period. Going back further in time, to the 1980s and early 1990s, in the aftermath of the farmland bust, several hundred small banks failed due to excessive loan concentrations in agriculture, and especially agricultural land, yet Table 6 gives excessively low charge-off weights to agricultural risk exposures, which is especially ironic at a time of increased weakness in agriculture due to declining farm income and land prices.

Reliance on lagging measures of banking risk: The revised NPR continues to place excessive reliance on loan charge-offs, again as evidenced by Table 6. Charge-offs result from loans usually made during better times; in any event, they result from loans made at least a year before, if not several years before, the charge-off occurs. The same criticism applies to any reliance placed on non-performing loans or other real estate owned. By the time a loan shows up in either of those categories, the damage has long been inflicted -- the time to charge a risk-sensitive premium to deter such risk lending is while the boom is underway, when lending is at its peak, not several years after it has gone bust.

Reliance on non-performing loan data is even more suspect given the extent to which failed banks usually have significantly under recognized in their call reports the magnitude of nonperforming loans at the time they are closed. That stark fact is evidenced by the inevitably large gap at the time of failure between a failed bank's last reported net worth and the magnitude of its much larger insolvency loss.

Risk-sensitive insurance premiums of any form should deter risky behavior of any type that can lead to future losses. Discounts auto insurers now offer to policyholders who agree to place safety-monitoring devices on their cars and trucks, in return for a lower premium, are one example of using insurance pricing to deter risky driving, such as excessive speeding. Ignition-lock devices on cars driven by persons who have previously been convicted of drunk driving, which are indirectly reflected in insurance premium rates, represent another deterrent intended to hold down insurance losses. Where in the FDIC's proposed risk-sensitive premium-rate structure are there deterrents for bankers intoxicated by the prospect of rapid growth in especially risky categories of lending?

Rapid asset growth: Acknowledging the role that rapid growth can play in bank failures, or in any type of business for that matter, represents a baby step forward in incorporating in deposit-insurance pricing a forward-looking indicator of increased banking risk, and possible failure. However, a one-year look-

back on asset growth is too short a time period, especially in cases where a bank has experienced several consecutive years of excessively rapid growth, which greatly compounds to risk of stumbling and then failing. Further, there should be an acknowledgement in risk-based pricing that rapid asset growth through merger or acquisition also increases the risk of failure that should be reflected in deposit-insurance pricing. Rapid asset growth during a booming economy should be especially suspect, for as former Federal Reserve Chairman Alan Greenspan observed on several occasions, bad loans are usually made in good times. Nowhere in this NPR is there a reflection of that truism.

Backtesting: The FDIC's reliance on backtesting to confirm the soundness of its supposedly risk-based pricing should be rejected as irrelevant in measuring the efficacy of risk-sensitive pricing that seeks to deter unwise banking. That is, projecting banks that will fail within the next three years based on lagging measures of banking risk merely confirms that those measures are reasonably good at identifying indicators of potential failure after a bank has harmed itself by engaging in risky banking practices. Put another way, the FDIC's backtesting merely confirms the lack of deterrence in its supposedly risk-based pricing.

Declining premiums during a time of rising banking risk: Perhaps the most amazing aspect of this NPR is the FDIC's discussion on page 6110 of the Federal Register publication of this NPR that "lower, moderate assessment rates . . . will go into effect when the DIF reserve ratio reaches 1.15 percent. . . The rates are to remain in effect unless and until the reserve ratio meets or exceeds 2 percent." That is, there will be two significant, across-the-board rate reductions for FDIC-insured banks that will be totally irrespective of changes at that time in the riskiness of individual banks or the banking industry overall. This policy is absolutely absurd, for at a time when quite likely banking risk will be increasing as the current economic expansion matures, or perhaps even as the economy begins to slide towards the next recession, that deposit insurance premium rates will be declining. I fully understand the rationale for these across-the-board rate reductions -- reducing the amount the banking industry must prepay towards the cost of the next banking crisis -- but the stated intent of reducing premium rates when possibly they should be increasing to deter contemporaneous, unwise risk-taking runs completely counter to insurance theory.

I would welcome the opportunity to discuss with FDIC staff these flaws, as well as other flaws, in this NPR. I can be reached by reply email or at the phone number provided below.

Respectfully submitted.

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