JOHN MARSHALL BANK

August 11, 2015

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

Re: Federal Deposit Insurance Corporation Notice of Proposed Rulemaking (RIN 3064–AE37)

Dear Mr. Feldman:

John Marshall Bank welcomes the opportunity to comment on the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking (NPR) proposing changes to the FDIC's deposit insurance assessment regulation for small banks, which are defined as banks with assets of less than $10 billion. In particular, we would like to comment on the impact of this proposal on active C&I and construction lenders.

The proposed rule will disproportionately affect community banks who are active C&I and construction lenders. This is due to the fact that the model applies a weighted loan charge-off rate that is based on what was experienced during the recent Great Recession. The recession affected construction and C&I loan charge-off ratios much more severely than their long term historical charge-off ratios, and different banks and regions of the country were much more severely affected than others.

The high charge-off rates in the construction loan and C&I segments will create a very large Loan Mix Index for banks focusing on these two segments. A large Loan Mix Index will translate into a much higher deposit insurance assessment rate for these banks. So the effect of the proposed rule will be to force community banks to reduce lending activity in the construction and C&I segments, both of which are critical to a strong and growing economy.

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Executive Offices
1943 Isaac Newton Square, Suite 100, Reston, VA 20190
703.584.0840 (main) • 703.584.0859 (fax) • johnmarshallbank.com

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Of the 271 banks in the country who are active construction lenders (those with construction loans over 100% of their total risk-based capital):

- 245 have assets of less than $1 billion
- 196 have assets of less than $500 million
- 118 have non-performing loans (NPL's) to total loans of less than 1%
- 138 have loan loss reserves greater than their NPL's

These are largely small community banks that are critical to their local economies. They are providing the capital to improve their communities and support small businesses. And they are largely doing it responsibly, with solid risk management practices, and strong loss reserves and capital bases. Most pose very little, if any, risk to the FDIC insurance fund.

The proposed rule is flawed by calculating a Loan Mix Index based on historical industry charge-off rates experienced during the worst economic crisis we've seen since the Great Depression. And the loss ratios, for construction loans in particular, are based on irresponsible lending by banks that have since failed.

The proposed rule should provide for lower FDIC insurance assessment rates for those banks who are helping fuel the recovery and who are doing it responsibly with strong risk management practices. Assessment rates should not be based on what has happened over the past five years in the general economy to banks both well run and irresponsible, in good markets and bad – they should be based on an individual bank's historical loss ratios, its individual capital strength, and its individual examination results. Well run banks fueling economic growth and located in strong markets should not have to pay the higher assessment rates that will result from using the proposed Loan Mix Index formula.

In my opinion, this is a classic regulatory counter-cyclical response – relax oversight when the economy is over-heated, resulting ultimately in over-building, recession and bank failures. Then over-react by tightening oversight, and increasing regulatory costs, which will likely contribute to choking off the recovery just as it's picking up momentum.

Sincerely,

Carl Dodson
EVP & Chief Operating Officer

cc:

The Honorable Mark Warner
475 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Timothy Kaine
231 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Donald Beyer
431 Cannon House Office Building
United States House of Representatives
Washington, D.C. 20515

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429