PA Bankers Association

J. Duncan Campbell III
President & CEO
Tel: (717) 255-6916
Fax: (717) 233-6362
dcampbell@pabanker.com

September 11, 2015

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

Re: Proposed Rule on Assessments (12 CFR §327); RIN 3064–AE37

Dear Mr. Feldman:

The Pennsylvania Bankers Association (PA Bankers)[1] thanks the FDIC for this opportunity to comment on your small bank assessment proposal which is of significant concern to many of our member institutions.

We share FDIC's interest in maintaining a viable deposit insurance fund and appreciate its efforts to develop an assessment system for established small banks that achieves that end. However, we read the proposal to be based upon lessons learned during the last financial crisis. While those lessons are important, we are concerned that an assessment system designed to reduce the failure of banks which weathered that particular crisis and thus did not succumb to the pressures that preceded it seems to us not to be the best response.

While we support the comprehensive comments to be filed by the American Bankers Association and commend them to your consideration, we wish to emphasize the following major points:

1. The CAMELS component ratings assigned by the bank regulators should be given much higher weight in any small bank assessment than any other formula.
2. Banks that meet all the regulatory standards of "well-capitalized" should not be penalized by the extreme elevation of the weighting of the tier 1 leverage ratio.
3. Core-deposits-to-total assets should not be weighted as highly as they would be by the proposal. Our members view "core deposits" differently than the drafters of the proposal and believe, for example, that reciprocal deposits (such as CDARS) should be considered core deposits. Similarly, banks which utilize Federal Home Loan Bank advances and term brokered CDs to mitigate risk should not be penalized in their deposit insurance ssessment. Such funding mechanisms could help protect banks in a rising interest-rate environment.

[1] The Pennsylvania Bankers Association includes as members depository institutions of all sizes and locations operating in the Commonwealth of Pennsylvania.

4. The proposed one-year-asset-growth factor could penalize healthy, manageable loan growth and is better reflected by the asset quality component of CAMELS.
5. Forecasting bank failure by the proposed loan portfolio distribution factor based upon the portfolios of banks who failed during the crisis may not be successful because circumstances of the next crisis could be very different. Here again, the "A" and "S" components of the existing CAMELS ratings assigned by the supervisors are better measures.

For these reasons, we respectfully suggest that the FDIC reconsider the proposed new small bank assessment formula factors and instead consider assigning more weight to the CAMELS components which provide a more flexible means of assessing risk of failure during changing times.

Sincerely,

J. Duncan Campbell III