VIRGINIA BANKERS ASSOCIATION

September 9, 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 ("the Notice")

Dear Mr. Feldman:

On July 13, 2015, the Federal Deposit Insurance Corporation (FDIC) published for comment a Notice of Proposed Rulemaking (NPR) proposing changes to its deposit insurance assessment system for small banks, which are defined in the proposal as banks with assets of less than $10 billion.

The Virginia Bankers Association ("VBA") represents banks of all sizes and charters and has served as the organized voice for Virginia's $615 billion banking industry and its sixty-five thousand employees since 1893. A significant majority of the VBA's members are banks with less than $10 billion in assets. We appreciate the opportunity to submit our comments on the proposal.

We welcome the willingness of the FDIC to seek improvements to the current deposit insurance assessment formula. However, we share the concerns voiced by many of our member banks that the proposed changes to the assessments formula do not properly or accurately reflect the risk factors necessary to best determine individual assessments. Of most concern is the lack of consistency with supervisory considerations and the lack of verifiable value with which some factors are weighted. We urge reconsideration of the proposed new factors for core deposits, loan mix and asset growth as proposed and suggest further review of the appropriate alignment of credible risk factors in any change in the assessments formula.

As is stated in the Notice, the current formula "did relatively well at capturing risk and predicting failures in more recent years." We believe that individual bank performance and the probability of future failures cannot be best measured through reliance on a few items contained in a Call Report when compared to thoughtful supervisory examinations which offer a more nuanced consideration of the individual institution's risk profile and business model. Because the CAMELS rating provides a more accurate reflection of the overall risk profile, it should receive the greatest weight in the assessment method.

Likewise, the proposal disproportionately weighs the tier 1 leverage ratio to the detriment of institutions that meet "well capitalized" regulatory standards. Those banks meeting that standard should not be subject to greater tier 1 leverage ratio weighting than currently applied as it unfairly penalizes those small banks attempting to deploy their capital to support their customers and communities.

In addition to concerns related to the treatment of supervisory and capital standards, we also find specific assessment factors and their weighting in the proposed methodology troublesome. The measures and definitions related to core deposits contain serious flaws. Treating reciprocal deposits, which over half of the FDIC-insured institutions in Virginia offer and of which over $1.5 billion are held, as brokered deposits is perplexing both for the lack of analysis used to reach that conclusion and the fact that reciprocal deposits are the functional equivalent of core deposits. Defining and assessing reciprocal deposits as proposed would be a significant and unwarranted new tax without evidence that they truly increase an institution's risk profile. Instead, the FDIC should exempt reciprocal deposits from the definition of brokered deposits in the final assessments rule and all other FDIC rules.

Funding diversification can lower illiquidity risk, something overlooked in the proposed core deposit factor methodology. Banks should not be punished for sound risk management, especially those small banks who lack access to many liquidity providers. Therefore, efforts should be made to ensure banks may continue balancing long-term assets against Federal Home Loan Bank advances and term brokered deposits.

Finally, the reliability and applicability of the proposed loan mix index and one-year-asset growth factors raise disconcerting questions. Utilizing a backward-looking factor based off of the past performance of failed institutions as is proposed with the portfolio distribution treatment overlooks the supervisory measures of asset quality and market sensitivity. The unintended impact of encouraging banks to concentrate their portfolios in certain loan categories should be strongly considered and the value of attempting to predict the characteristics of future economic cycles and failures off only the most recent trends must be questioned. Likewise, the one-year-asset growth factor fails to reflect the sound approach taken by banks to grow with and in their local markets. As a bank grows in a strong local economy, it should not be punished with higher assessments. Adjustments in supervisory ratings better address actual asset quality than the proposed fixed parameters included in the proposed methodology.

In conclusion, as the FDIC examines how best to position the assessment formula to differentiate risk going forward, we encourage you to consider the conflicts in the proposal with current supervisory components, remove reciprocal deposits from the definition of brokered deposits and reconsider the new factors proposed. As is stated in the proposal, the current formula "did relatively well at capturing risk and predicting failures in more recent years." The FDIC should not change the current formula until it can demonstrate that any changes would be robust through time.

Sincerely,

Bruce T. Whitehurst

Bruce T. Whitehurst
President and CEO