January 5, 2016

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

Re: Assessments: RIN 3064-AE40

Dear Mr. Feldman:

Pursuant to its authority under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd Frank Act), the FDIC is proposing to impose a surcharge on the quarterly assessments of insured depository institutions (IDIs) with total consolidated assets of $10 billion or more. The surcharges would begin the calendar quarter after the reserve ratio of the Deposit Insurance Fund (DIF) first reaches or exceeds 1.15 percent and would continue through the quarter that the reserve ratio first reaches or exceeds 1.35 percent. The surcharge would equal an annual rate of 4.5 basis points applied to the institution's assessment base. The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the FDIC's proposal.

The FDIC expects that these surcharges will commence in 2016 and that they should be sufficient to raise the reserve ratio to 1.35 percent in approximately eight quarters. If the reserve ratio does not reach 1.35 percent by December 31, 2018, the FDIC would impose a shortfall assessment on IDIs with total consolidated assets of $10 billion or more on March 31, 2019. Since the Dodd-Frank Act requires that the FDIC offset the effect of the increase in the reserve ratio from 1.15 percent to 1.35 percent on IDIs with total consolidated assets of less than $10 billion, the FDIC would provide assessment credits to IDIs with total consolidated assets of less than $10 billion for the portion of the regular assessments that contributed to growth in the reserve ratio between 1.15 percent and 1.35

[1] The Independent Community Bankers of America®, the nation's voice for more than 6,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With 52,000 locations nationwide, community banks employ 700,000 Americans, hold $3.6 trillion in assets, $2.9 trillion in deposits, and $2.4 trillion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

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percent. The FDIC would apply the credits each quarter that the reserve ratio is at least 1.40 percent to offset part of the assessments of each institution with credits.

FDIC's Proposal to Surcharge Large Banks

ICBA generally commends the FDIC for its proposed implementation of Section 334(e) of the Dodd-Frank Act. ICBA strongly supported this provision when that section of the Dodd-Frank Act was being considered since it indemnifies the banks with assets less than $10 billion from the costs of raising the DIF reserve ratio from 1.15 percent to 1.35 percent. Without that provision, community banks probably would not have seen any rate decreases until the DIF reserve ratio reached 1.35 percent and may have even seen a rate hike. As it is, most community banks will likely see a rate decrease once the DIF reserve ratio reaches 1.15 percent assuming the FDIC adopts its new method of assessing banks with consolidated assets of less than $10 billion.

ICBA believes the 4.5 basis points surcharge applied over eight calendar quarters is a reasonable way for the large banks to pay for the costs of raising the DIF reserve ratio to 1.35%. Appendix I to the proposal indicates that the proposal would have no significant impact on the capital of the largest banks and only a nominal impact on their earnings. In fact, because the premiums of all banks are scheduled to be reduced once the DIF reserve ratio reaches 1.15 percent, thirty-four-or about one third-- of the 108 large banks would still pay lower assessments in the future despite the imposition of the surcharge. Also, the large banks would not have to account for the future surcharges as a present liability or a recognized loss contingency. Instead, surcharges would be recognized in the quarters they are paid—just as assessments are accounted for now.

The FDIC also requested comment on alternatives to surcharging the large banks over eight calendar quarters. For instance, the FDIC suggested as "reasonable" the idea of imposing a one-time assessment where the large banks would pay a lump sum on December 30, 2016. This would strengthen the fund more quickly and would reduce the risk of the banking industry facing unexpected, large assessment rate increases in the future.

However, it would also have a more dramatic impact on the large banks. For instance, the FDIC estimates that on average, a one-time assessment would reduce large banks' annual earnings by approximately six percent and that for a few of the large banks, the earnings impact would exceed 20 percent of their annual earnings. Furthermore, under GAAP accounting, the large banks might have to recognize the liability for a one-time assessment as early as the date the FDIC adopts a final rule. The FDIC estimates that a one-time assessment would likely be approximately $13 billion, and would represent approximately 12 basis points of large banks' aggregate regular assessment base.

While we agree with the FDIC that a one-time assessment on the large banks is a reasonable alternative, we believe the better solution is to surcharge the large banks over four calendar quarters rather than eight. This solution has the advantage of building up DIF reserves quickly without impacting significantly large banks' earnings

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and liquidity. This alternative recommendation, like the proposal, would still mean that the small banks would be contributing to increasing the reserve ratio. Therefore, the FDIC would still have to provide credits to small banks in much the same way as under the proposal. However, these credits would be much smaller than under the proposal and community banks would be able to use them sooner and much more rapidly.

In any case, ICBA does commend the FDIC for its idea of deducting $10 billion from each large bank's assessment base for the surcharge. We agree that this assessment base deduction would avoid a "cliff effect" for banks near the $10 billion asset threshold, thereby ensuring equitable treatment. For instance, a bank with assets of $12 billion would only be surcharged on an assessment base of $2 billion—the amount over the $10 billion deduction—rather than the full $12 billion. This reduces incentives for banks to limit their growth to stay below $10 billion in assets, or to reduce their size to below $10 billion in assets, solely to avoid surcharges.

The FDIC's Proposed Credits for Small Banks

To meet the Dodd-Frank Act requirement to offset the effect on small banks of raising the reserve ratio from 1.15 percent to 1.35 percent, the FDIC proposes to provide assessment credits to small banks for the portion of their assessments that contribute to the increase from 1.15 percent to 1.35 percent. To calculate the aggregate amount of credits awarded small banks, the FDIC would first calculate 0.2 percent of the estimated insured deposits (i.e., the difference between 1.35 percent and 1.15 percent) on the date that the reserve ratio first reaches or exceeds 1.35 percent. The amount that small banks contributed to this increase in the DIF through regular assessments—would equal the small banks' portion of all large and small bank regular assessments during the credit calculation period times an amount equal to the increase in the DIF less surcharges.

ICBA agrees that the FDIC's method of calculating the credits is reasonable. This method assumes that all non-assessment revenue (i.e., investment income) during the credit calculation period would be used to maintain the fund at a 1.15 percent reserve ratio. This method has the advantage of attributing reserve ratio growth to assessment revenue as much as possible—thus maximizing the amount of small bank assessment credit. As proposed, the FDIC projects that the aggregate amount of credits would be approximately $900 million.

ICBA's primary concern with the FDIC's proposal is that credit use could not occur until the DIF reserve ratio is at or above 1.4 percent. Assuming (as projected) it would take until the end of 2018 for the DIF's reserve ratio to reach 1.35 percent, it could be well into 2019 before small banks could start to take advantage of their credits.

As noted above, this is the reason ICBA prefers a large bank surcharge over four quarters than the proposed eight quarters. Besides the fact that the DIF would reach a stronger funding position more rapidly, small banks would have fewer credits to deal with and could take advantage of the credits much sooner. Assuming the surcharge commenced during the second quarter of 2016 and the DIF reserve ratio of 1.4 percent

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was reached soon after the end of the surcharge, under our alternative, community banks could start using their credits as early as the fourth quarter of 2017.

However, if the FDIC proceeds with its proposal to surcharge over eight quarters, the FDIC should structure the rule so that community banks can take their credits prior to the expiration of the credit calculation period. Otherwise, small banks are losing the time value of their credits. ICBA proposes that the FDIC at least estimate the amount of credits before the credit calculation period gets started and allow small banks to at least take advantage of a portion of their estimated credits after four quarters of the credit calculation period. That way, small banks would not have to wait until late 2019 to start using their credits.

ICBA appreciates the opportunity to comment on the FDIC's proposal to impose a surcharge on the quarterly assessments of IDIs with total consolidated assets of $10 billion or more. If you have any questions or would like additional information, please do not hesitate to contact me by email at Chris.Cole@icba.org.

Sincerely,
/s/ Christopher Cole

Christopher Cole
Executive Vice President and Senior Regulatory Counsel