Wisconsin Bankers ASSOCIATION

March 7, 2016

VIA EMAIL

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street N.W.,
Washington, DC 20429
comments@fdic.gov
RIN 3064-AE37

Re: Revised Proposal to Refine the Deposit Insurance Assessment System for Small Insured Depository Institutions; RIN 3064-AE37

Dear Mr. Feldman,

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing approximately 270 state and nationally chartered banks, savings and loan associations, and savings banks. WBA appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC's) revised proposal to refine the deposit insurance assessment system for small insured financial institutions that have been federally insured for at least five (5) years and have assets of less than $10 billion.

WBA recognizes FDIC is required under the Federal Deposit Insurance Act (FDI Act) to establish an assessment system that is risk-based; in particular, a system meant to: (1) reduce the assessment a lower-risk financial institution pays compared to an institution FDIC considers to be higher-risk; and (2) provide incentives for financial institutions to monitor the risks FDIC believes could increase potential losses to the Deposit Insurance Fund (DIF).

WBA appreciates the efforts taken by FDIC in response to comments received regarding its July 2015 assessment system proposal for small insured financial institutions. In particular, we appreciated FDIC's efforts to: (1) include a higher weight for CAMELS component ratings; (2) use a brokered deposit ratio as a measure in the financial ratios method for calculating assessment rates rather than the previously proposed core deposit ratio; (3) remove the existing brokered deposit adjustment; and (4) revise the previously proposed one-year asset growth measure.

WBA also recognizes the revised proposal is net neutral in that there is not an increase in the amount collected by FDIC from small financial institutions, collectively. Additionally, WBA is very mindful of the mixed treatment financial institutions in Wisconsin would receive under FDIC's re-proposed changes. For some, the revised proposed calculator illustrates a decrease in assessment. For other institutions, the revised proposal results in no change. And, unfortunately for others, FDIC's revised proposal will result in an increased assessment. WBA appreciates FDIC's efforts to limit, where possible, the negative impact of the revised proposal—especially given the significant added costs borne by small financial institutions as they continue to implement regulations required under the Dodd-Frank Act.

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While some financial institutions in Wisconsin will benefit from the revised proposed changes, WBA believes some of the re-proposed changes to the assessment formula still do not reliably differentiate the risk of an individual bank failure through economic cycles, or outperform the current formula. WBA offers the following specific recommendations.

Tier 1 Leverage Ratio Weight

WBA believes the extreme elevation of weighting for tier 1 leverage ratio in the re-proposed assessment formula, as compared to the current formula, would still unfairly penalize many financial institutions that meet all the regulatory standards of "well-capitalized." As re-proposed, the assessment formula is over twenty-eight (28) times that in the current formula, the result of which is a well-capitalized institution could pay a significantly higher assessment; this seems an absurd result for a system that is to be risk-based.

In addition to the tier 1 leverage factor, capital already carries additional weight in the assessment formula as the "C" component of CAMELS. WBA believes an elevated weighting for tier 1 leverage may be fitting for institutions that are less than "well-capitalized." However, for financial institutions that have reached the status of "well-capitalized", the weighting remains too high under the revised proposal. WBA recommends FDIC reduce the weight of tier 1 leverage ratio within its re-proposed formula to be more in line with the current formula.

Loan Portfolio Distribution Factor

FDIC did not change its loan portfolio distribution factor in the revised proposal. As such, WBA continues to believe the proposed loan distribution factor of questionable value in forecasting the failure of financial institutions. The factor was derived based only on the past performance of institutions that failed. Not every institution with construction and development (C&D) loans and/or commercial and industrial (C&I) loans fail; the factor ignores the performance of the vast majority of financial institutions that have not failed yet have significant C&D and C&I loan portfolios. The factor overlooks the quality of loan underwriting, portfolio management, and risk hedging in an institution. WBA continues to believe risk comes less from the loan portfolio itself, but rather stems from the quality of loans in the portfolio and their management—factors that are best measured by regulators and included in the "A" (for asset quality) and "S" (for sensitivity to market risks) components of CAMELS.

As previously stated, the FDI Act requires FDIC's assessment system to be risk-based. However, under the loan portfolio factor, FDIC fails to incorporate each institution's risk-based analysis of its own loan portfolio and the management of that portfolio and paints all institutions with the same broad loan portfolio risk based upon assumptions created from past activity.

Respectfully, WBA continues to believe this type of analysis is flawed. The proposed loan portfolio distribution factor remains retroactive in perspective. The past has seen significant variances in economic cycles and bank failures that may accompany them. Future bank failures may well be characterized by different portfolio mixes than in the last recession. FDIC should instead avoid policies that encourage institutions to concentrate in certain loan categories—even if unintentionally. WBA recommends FDIC remove the proposed loan portfolio distribution factor from its assessment formula. Alternatively, we recommend FDIC develop a measure based upon an individual financial institution's historical average over time of loan portfolio asset quality measures, such as: delinquencies, non-performing assets, and charge-offs. WBA believes an institution-specific measure would be a more accurate reflection of an institution's own loan portfolio risk rather than a formula based upon how other institutions have performed in the past.

Conclusion

WBA recognizes FDIC is required under the FDI Act to establish a deposit insurance assessment system that is risk-based. WBA is very mindful of the mixed treatment financial institutions would receive under FDIC's revised proposal and we appreciate FDIC's efforts to limit, where possible, the negative impact of the proposal—especially given the extra costs borne by small financial institutions as they continue to implement regulations required under the Dodd-Frank Act.

WBA appreciates the efforts taken by FDIC in response to comments received regarding its July 2015 assessment system proposal for small insured financial institution—including, to: (1) include a higher weight for CAMELS component ratings; (2) use a brokered deposit ratio as a measure in the financial ratios method for calculating assessment rates rather than the previously proposed core deposit ratio; (3) remove the existing brokered deposit adjustment; and (4) revise the previously proposed one-year asset growth measure.

While some financial institutions in Wisconsin will benefit from the revised proposed changes, WBA still believes some of the proposed changes to the assessment formula do not reliably differentiate the risk of an individual bank failure through future economic cycles, or outperform the current formula.

WBA recommends FDIC: (1) reduce the weight of the tier 1 leverage ratio; and (2) either remove the loan portfolio distribution factor from the revised proposal, or alternatively, develop a measure based upon an individual financial institution's historical average over time of loan portfolio asset quality measures, such as: delinquencies, non-performing assets, and charge-offs to more accurately reflect institution-specific risk.

Once again, WBA appreciates the opportunity to comment on FDIC's revised proposal.

Sincerely,

Rose Oswald Poels

Rose Oswald Poels
President/CEO