October 31, 2008

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Comments – RIN 3064-AD35

Dear Mr. Feldman:

I am writing on behalf of the Virginia Bankers Association (the "VBA") to comment on the Federal Deposit Insurance Corporation's (the "FDIC") proposed 5-year plan to recapitalize the Deposit Insurance Fund ("DIF"). The VBA represents the interests of all commercial banks and savings institutions doing business in the Commonwealth of Virginia.

The FDIC's proposal would increase premiums through a number of changes to the deposit insurance assessment rates. While we applaud the FDIC for pursuing a new risk-based approach to assessing premiums, we have a number of concerns with this proposal:

Premium Increase

The FDIC's proposal would increase premiums for all insured institutions by 7 basis points (bp) in the first quarter of 2009. Thereafter, under a new risk-based assessment system, the rate for Category I banks will be between a base rate of 10 bp and a ceiling of 14 bp (up from the current 5 to 7 bp) with other category banks subject to similar increases. Under this proposed new system, however, adjustments to this calculation could lower premiums or raise premiums above the ceiling.

The VBA is concerned about the timing of this premium increase. Given the current challenges in the marketplace, and the urgent desire to make more credit available to relieve some of the stress, we believe the FDIC should be less aggressive in raising premiums at this time. We believe a number of factors argue for a more restrained approach.

First, the FDIC has indicated that it expects the income realized from the proposed new assessment rules to return the reserve ratio of DIF to 1.26% in 5 years. And yet the Federal Deposit Insurance Act provides that the FDIC need only restore DIF to a reserve ratio of 1.15%. While we appreciate the FDIC's stated desire "to provide this margin for error in the event that losses exceed staff's best estimate or insured deposit growth is more rapid than expected," we would emphasize that there is a significant downside to this approach. Taking more money out of the banking system at this time means there is less money available for banks when they and their customers need it most.

Second, in proposing the premium increases, the FDIC has assumed that deposits will grow by 5% over the next 5 years. (This is the average growth rate over the last several years.) Had a more reasonable growth rate been assumed – say 3% - to reflect the weak economy, the base rate could be set at 8 bp rather than the proposed 10 bp. We believe the FDIC should reconsider the deposit growth assumption it used in reaching its proposed premium increase.

Finally, the FDIC's proposal fails to take into account the benefits to the banking system that may flow from recent federal legislation and programs. We believe it would be prudent for the FDIC to have the ability to fully assess the impact of these programs before deciding on a 5-year DIF restoration plan. Accordingly, for all these reasons, we would urge the FDIC to revise its plan and take a more moderate approach. Such a revised plan might include extending the time over which such premium increases are to be paid in order to lessen the immediate negative impact in the difficult market conditions we currently face.

Brokered Deposits

The FDIC is proposing to add the use of brokered deposits as a new risk factor that would increase a bank's premium under the risk-based assessment system. The use of brokered deposits would come into play for institutions with total assets 20% greater than they were four years earlier (with adjustments for mergers and acquisitions) and with brokered deposits of more than 10% of all deposits.

The VBA believes that the definition of brokered deposits under any such risk factor should exclude reciprocal deposits, such as those under the Certificate of Deposit Account Registry Service ("CDARS"), and sweeps from broker/dealer affiliates to their banks. CDARS and sweep accounts are more in the nature of core deposits than brokered deposits.

With respect to CDARS, we would emphasize that many of our banks view this program as an exceptionally stable source of funds that allows them to serve their customers. We do not believe CDARS reciprocal deposits increase an institution's risk profile based on the following: CDARS CDs have a high reinvestment rate; CDARS deposits are mostly gathered in a bank's market area from established customers; and banks set their own rates on CDARS deposits, such that they do not have the costs associated with traditional brokered deposits. Again, CDARS reciprocal deposits are essentially the same as core deposits and do not increase a bank's risks. Accordingly, they should be exempt from the definition of brokered deposits under any final rule.

Secured Liabilities

The FDIC also proposes to impose an add-on premium charge to an institution if the ratio of secured liabilities, such as Federal Home Loan Bank ("FHLB") advances, to domestic deposits exceeds 15% of domestic deposits. We strongly disagree with including FHLB advances in the risk-based formula. Many of our banks use FHLB advances as a reliable and low-cost funding source. Such advances add liquidity, which reduces risks. Treating this source of funding as "risky" under the FDIC's risk-assessment system would have the perverse effect of reducing bank lending (hurting our ability to recover from the current economic weakness) and forcing banks to rely on other more costly alternative funding sources (thereby increasing risk). Accordingly, they should not be included as a risk factor under the FDIC's rule.

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We appreciate the FDIC considering our comments. Should you have any questions, please feel free to contact me at 804-819-4701 or bwhitehurst@vabankers.org.

Sincerely,

Bruce T. Whitehurst

Bruce T. Whitehurst
President and Chief Executive Officer