INDEPENDENT COMMUNITY
BANKERS of AMERICA

November 14, 2008

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

Attention: Comments – RIN No. 3064-AD35

Re: Notice of Proposed Rulemaking – Deposit Insurance Assessments

Dear Mr. Feldman:

The Independent Community Bankers of America[1] appreciates the opportunity to offer comments in connection with the FDIC's proposal to increase the assessment rates for deposit insurance for the first quarter of 2009. The increase for the first quarter of 2009 is proposed in conjunction with other amendments to the risk-based assessment system for FDIC deposit insurance and a second set of assessment rates that would take effect the second quarter of 2009 and continue until amended. This letter only provides comments on the proposed increase in rates for the first quarter of 2009. We will provide comments on the remainder of the proposal by December 17, 2008, which is the new deadline for comments on the rest of the proposed rule.

Summary of ICBA's Position

Given the severe economic and credit crisis currently facing the nation, the ICBA strongly urges the FDIC to amend the Deposit Insurance Fund (DIF) restoration plan to extend the period for restoration of the DIF to at least seven years and that the FDIC adopt a more modest assessment rate increase in order to keep as much money as possible in local communities for lending at this critical time.

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[1] *The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold $1 trillion in assets, $800 billion in deposits, and $700 billion 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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Background
These proposed increases are undertaken to meet assessment income goals established by the FDIC in its Deposit Insurance Fund (DIF) restoration plan adopted on October 6, 2008. As of June 30, 2008, the ratio of funds in the DIF to estimated insured deposits (reserve ratio) fell to 1.01 percent. When the reserve ratio of the DIF dips below 1.15 percent, the Federal Deposit Insurance Reform Act of 2005 (Reform Act) requires the FDIC to adopt a DIF restoration plan that results in at least a 1.15 percent reserve ratio within 5 years. The FDIC has adopted a DIF restoration plan that maintains a target designated reserve ratio of 1.25 percent and that results in a 1.26 percent reserve ratio by the end of the 5-year plan. The FDIC has chosen to create a plan that reaches a 1.26 percent reserve ratio instead of a 1.15 percent reserve ratio.

The Proposed Increase
Currently, banks in Risk Category I pay an annualized assessment rate of between 5 and 7 basis points. Risk Category II banks pay 10 basis points. Category III banks pay 25 basis points, and Category IV banks pay 40 basis points.

The FDIC has proposed an increase in assessment rates for the first quarter of 2009, without making any other changes to the risk-based assessment system. Category I banks would pay between 12 to 14 basis points; Category II banks would pay 17 basis points; Category III banks would pay 35 basis points; and Category IV banks would pay 50 basis points. These rates would be applied to domestic deposit balances as of March 31, 2009, and the assessments would be due by June 30, 2009.

ICBA's Position
Community banks are prepared to do their part to maintain a strong and well-capitalized deposit insurance system. However, the nation is currently faced with the most severe economic crisis it has faced in many generations. Central to the current economic crisis is a severe disruption in the credit markets that has included the collapse of several banks, thrifts, investment banks, insurance companies and other financial services companies. The Federal Deposit Insurance Act permits the FDIC to extend the period in which the DIF must be restored on account of "extraordinary circumstances."[2] In light of the current economic crisis, the nation would be better served by keeping as much capital within the community banking sector as can safely be achieved without endangering the near-term and long-term viability of the DIF. **The ICBA strongly urges the FDIC to extend the period for restoration of the DIF to at least 7 years and to adopt more modest assessment rates commensurate with a longer restoration period.**

Twice since September 29, 2008, the FDIC Board of Directors has approved the use of its statutory authority to prevent systemic risk.[3] These actions were necessitated by the current economic and credit crisis. The Secretary of the Treasury (after consultation with the President) and the Federal Reserve Board each made comparable systemic risk determinations on the same occasions. **The FDIC has ample justification, then, to find "extraordinary circumstances" and extend the period for the DIF restoration.**

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[2] Section 7(b)(3)(E)(ii) of the Federal Deposit Insurance Act, 12 USC 1817(b)(3)(E)(ii).
[3] Section 13(c)(4)(G) of the Federal Deposit Insurance Act, 12 USC 1823(c)(4)(G).

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Holding down deposit insurance premiums would be consistent with the government's efforts to restore stability to the markets and the financial sector. On October 14, 2008, the Secretary of the Treasury announced a Capital Purchase Program (CPP) under the Troubled Asset Relief Program, established pursuant to the Emergency Economic Stabilization Act of 2008. Under the CPP, Treasury will invest up to $250 billion in the banking and financial sector through the purchase of capital instruments, such as preferred shares. In addition on October 14, the FDIC created the Temporary Liquidity Guarantee Program to provide substantial support for bank liquidity. It would be consistent with government efforts to shore up bank capital and bank liquidity to minimize any additional burdens on bank capital and liquidity that would result from an increase in deposit insurance premiums. Congress gave the FDIC discretion to design and administer the deposit insurance system to avoid pro-cyclical deposit insurance assessment increases. The FDIC should take full advantage of that discretion during the current economic crisis.

The proposed rate more than doubles the current nominal assessment rate. The proposed increase will have an even greater impact on those banks that had effective assessment rates below 5-7 basis points because of assessment credits. **The proposed assessment increase will result in a significant increase in cost of funds for every community bank throughout the country. A more modest increase in assessment rates would keep additional funds in local communities for lending to small businesses and consumers at this critical time.**

Conclusion

We again urge the FDIC to extend the period for restoration of the DIF to at least seven years and adopt a more modest increase in assessment rates. ICBA appreciates the opportunity to offer comments in connection with the FDIC's proposals for allocating assessment dividends. If you have any questions about our letter, please do not hesitate to contact the undersigned, Ike Jones (Ike.Jones@icba.org) or Chris Cole (Chris.Cole@icba.org) at 202-659-8111.

Sincerely,

/s/ Karen M. Thomas
Executive Vice President
Director, Government Relations Group