

November 17, 2008

Funds Management Group  
Mailcode: 001-16-17-10  
200 West Second Street  
Winston Salem, NC 27101

Mr. Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, DC 20429

Dear Mr. Feldman:

I am writing in response to the Federal Deposit Insurance Corporation's (the "FDIC") request for comments on a proposal to increase deposit insurance premiums. If adopted, the proposal would increase the annual assessment rate for insured financial institutions and add additional assessment fees based upon certain perceived risk factors. BB&T wishes to comment on the adjustments being proposed for brokered deposits and secured liabilities.

BB&T endorses the agency's approach to charge risky banks a higher assessment for deposit insurance. We believe this places a market-based discipline to the deposit insurance cost a bank pays. It is appropriate for those banks that pose higher risk to the fund to pay a higher assessment rate. However, we believe the measure of risk proposed by the FDIC is misdirected.

**Secured Liabilities:** The NPR proposes an upward adjustment in the assessment rate based on the ratio of secured liabilities to domestic deposits. The inclusion of this risk factor seems to run contrary to many well established programs that have implied government support. Banks routinely borrow secured funds from the Federal Home Loan Bank ("FHLB") system. This funding is an important part of a bank's liability structure. More recently, banks have become regular borrowers from the Federal Reserve through programs like the Term Auction Facility. The NPR specifically mentions both of these types of secured borrowing as raising the risk to the fund. The NPR also lists repurchase agreements which are routinely used by banks to obtain low-cost funding by using excess securities.

It is understandable that the agency would prefer a bank to be funded with unsecured liabilities that can be disregarded in receivership, leaving more unencumbered assets to service the depositors. However, the presence of unsecured liabilities does not mean the assets are of high quality or that those assets will bring sufficient value to pay the depositors in the event of receivership.

In fact, the presence of secured lending may be as strong an indicator of a healthy bank just as the presence of unsecured liabilities can indicate financial health. Banks normally pledge collateral in the form of loans with both the FHLB and the Federal Reserve. Both

of these government-controlled organizations receive a monthly report from borrowing banks regarding the portfolio of pledged loans. Because loans have to be of certain quality to be used as collateral, a bank is encouraged to maintain strong credit quality to be eligible for this funding source. Because funds are received in exchange for the pledged collateral, the bank has not recognized any leverage as a result of these transactions.

We would also encourage the agency to reconsider this proposal in light of recent market conditions. The FHLB and the Federal Reserve have been important sources of funding for banks over the course of the past year since the capital markets have shut down. Penalizing banks for accessing this critical funding source seems imprudent and inconsistent with market realities. It may also constrain bank borrowing, which is critical to obtaining funds to loan which is needed to get the economy moving forward.

**Brokered Deposits:** We are not in agreement with the statement that the presence of brokered deposits in a bank's liability structure automatically indicates higher risk. Such higher risk would require other conditions to be present such as a low level of deposits obtained from the bank's primary service area, out of market lending, low capital ratios, or imprudent growth and poor underwriting standards.

For BB&T and many other banks, brokered deposits are an attractive and useful source of funding especially given current market conditions. Establishing an arbitrary brokered deposit threshold will discourage reasonable brokered deposit use above that amount because banks and their examiners will view the threshold as a cap. We believe that the FDIC should not impose higher premiums based on brokered deposit use unless the exam team couples an excessive reliance on brokered deposits with other risk factors that truly increase the risk to the fund.

**Risk Measurement:** The true risk of a bank lies in the quality of its assets. As we have traversed this soft economy in recent months, it has been easy to see that the quality of bank balance sheets can be clearly differentiated. Banks that have failed have done so because of poor asset quality. The loss of asset quality may manifest itself in a liquidity crisis or a capital crisis, but it can all be traced to a lack of discipline in maintaining asset quality. It is enticing to believe that the appropriate level of deposit assessment can be determined by a "cookie cutter" approach by referring to a basic chart by the exam team. However, exam teams conduct a detailed review of the asset quality of a bank as part of the exam. The quality of the assets is reflected in the "A" and "E" of the CAMEL rating. These two factors should play directly into the deposit assessment because we believe that these are the two most reliable predictors of risk to the fund.

The proposals being considered only contain backward-looking indicators. Once a bank has failed, the presence of brokered deposits coupled with poorly generated assets in a high growth bank that cannot be sold for par, or a significant level of secured liabilities that reduce assets that can be sold to pay depositors may increase the cost to the fund. However, these factors are only relevant because the asset quality slipped. Without the

presence of poor asset quality, the brokered deposits or secured liabilities would have no impact on the bank or the fund.

In fact, the presence of a weak bank in a marketplace may even cause a healthy bank to have higher levels of brokered deposits or secured funds. If a bank becomes unhealthy, it will usually respond by raising deposit rates. This exact situation has been seen in many regions of the country as clusters of unhealthy banks compete for customer deposits because wholesale sellers of funds shy away from the institution. Thus, the bank that is getting ready to fail actually increases its levels of insured deposits held against risky assets. Healthy competitors will turn to alternative funding sources during these periods in order to maintain a reasonable net interest margin. In this example the healthy bank would pay a higher premium and the failing bank, which is actually raising the risk to the fund, would be viewed positively by the deposit risk matrix.

BB&T understands and agrees with the FDIC evaluating its process for assessing deposit insurance. However, BB&T strongly encourages the FDIC to measure the true source of risk to the fund. The banks that produce the additional risk are the ones that should be assessed higher costs rather than allocating the charge to a number of well run banks that properly blend their liability structures and opt for the lowest cost of overall funding to support their lending business. Thank you for your consideration of these comments.

Very Truly Yours,

  
Hal S. Johnson  
Treasurer