From: David Bursic [mailto:bursic@wvsbank.com]
Sent: Wednesday, October 28, 2009 9:39 PM
To: Comments
Subject: Prepaid Assessments, Proposed Rule - AD49

Mr. Robert E. Feldman
Executive Secretary – Federal Deposit Insurance Corporation

RIN 3064–AD49 [Comments Regarding Proposed Prepaid Insurance Assessments]

Dear Mr. Feldman:

I would like to take this opportunity to comment on the FDIC's proposal to require insured institutions to prepay three years worth of regular insurance assessments.

Amount of Funding Needed

Having reread the FDIC's "Liquidity and Needs Projections", I am unclear as to how much funding is needed.

The FDIC's proposal does not state the actual or projected dollar amount of funding necessary to support its liquidity needs. At a minimum, the FDIC should project its sources and uses of funding with an appropriate sensitivity analysis to account for uncertainties such as the timing and magnitude of bank failures.

I would like to see a quarterly liquidity needs projection over a one to three year timeframe in order for the FDIC to demonstrate its needs projection and support its business case for additional funding.

Use of Special Assessments

The FDIC should not use special assessments to meet material and protracted funding shortfalls. The FDIC seems to be losing sight of the "ability to pay principle" as it relates to the banking industry.

A better approach would be for the FDIC to project its liquidity needs, and base assessment prepayments, over a one-year timeframe. This should preserve the preferred accounting treatment – amortization over time – without requiring a large, three-year upfront payment for losses that may or may not occur.

Instead of one large three-year assessment, I would prefer three smaller one-year assessments.

Alternatives to Pre-Paid Assessments

I appreciate the FDIC's concern that the use of borrowings would generate an interest expense to the insurance fund. However, the use of borrowings would allow this burden to be amortized over time as industry earnings recover. Individuals buy houses, cars and educate their children by borrowing and repaying their debts over time in proportion to their income. With interest rates at historic lows, interest expense to the FDIC should be quite manageable.

The FDIC should issue bonds collateralized by its illiquid assets. These assets could be monetized by issuing collateralized bonds with a U.S. Government guarantee. I believe that with the U.S. Government guarantee, the FDIC's illiquid assets could be quickly converted into cash. In addition, with the U.S. Government guarantee, market competition should afford low financing rates.

Use of Growth Factor Estimates

The FDIC should not use a growth factor estimate to determine an institution's assessment base. The use of estimates is unnecessary because the FDIC already collects actual assessment base data on the quarterly Call Report.

This Call Report Data could be used to adjust an institution's prepaid assessment with payment due three months later.

FDIC Amended Restoration Plan

Common sense would argue for a lengthening of time to restore the insurance fund. The country is in the worst recession since the end of World War II. The banking industry needs more time to build earnings and capital. As earnings and capital build, banks will be in a better position to restore the insurance fund.

Regulatory Flexibility Act

The FDIC asserts, "for 98.5 percent of small institutions, the prepayment would be less than 25 percent of their cash and cash equivalent assets".

Frankly, I do not know of many banks that are carrying an extra 25 percent of excess cash and cash equivalents on their balance sheets.

Even if they were, 25 percent is too much money to spend at once on a "prepaid asset".

I do not understand how the FDIC can conclude, "the effect on liquidity is further mitigated by the institutions' ability to transfer their prepaid assessments". This ability to transfer would only be possible in the event of a merger.

Respectfully submitted,

/s/ David J. Bursic

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