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MEMO

From: Kenneth H. Thomas, Ph.D

To: FDIC

Date: October 27, 2009

Re: Comment on FDIC Prepaid Assessments (RIN 064-AD49)

The FDIC is seeking comment "on every aspect of this proposed rulemaking" but fails to ask the most important question: "Why is the FDIC in this mess in the first place?"

In my opinion, the answer is simply because the FDIC (and Congress) listened to the banking lobby instead of independent views on deposit insurance reform since the 1990s. FYI, I testified before the FDIC Board and Congress on this specific topic in 1995 and again in 2000. In fact, my latter position paper before the FDIC's April 25, 2000 Roundtable on Deposit Insurance is on your website at the following address: http://www.fdic.gov/deposit/insurance/initiative/index.html:

Roundtable on Deposit Insurance, April 25, 2000

On April 25, 2000, the FDIC hosted the first of a series of roundtable discussions. The session has been transcribed and the meeting material is available below.

- Transcript of Roundtable Discussion (Hard Copy)
- Video of Roundtable Discussion: Order Form ($20.00 per copy).
- FDIC Charts & Graphs: Supporting Data for FDIC Roundtable Presentations

Position Papers

Roundtable presentations by representatives of bankers, other financial professionals, and academic experts.

- American Bankers Association (29Kb PDF file - PDF help or hard copy)
- Association for Financial Professionals (28Kb PDF file - PDF help or hard copy)
- Independent Community Bankers (40Kb PDF file - PDF help or hard copy)
- Kenneth H. Thomas, Wharton School, University of Pennsylvania (67Kb PDF file - PDF help or hard copy)

With all due respect, had the FDIC (and Congress) followed my recommendations rather than those of the industry at that time, the Fund would never be in its current situation. I have attached the cover page and Executive Summary of my recommendations below. Please note that other recommendations relating to such important topics as special assessment premiums for Too Big To Fail banks based on assets rather than deposits are equally relevant today.

STATEMENT OF

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LECTURER ON FINANCE
THE WHARTON SCHOOL
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PHILADELPHIA, PA.
(KHThomas@wharton.upenn.edu)

before the

FDIC ROUNDTABLE

on

DEPOSIT INSURANCE REFORM

April 25, 2000

Washington, D.C.

EXECUTIVE SUMMARY OF RECOMMENDATIONS

The following are my deposit insurance reform recommendations for the three broad areas identified in the FDIC Roundtable agenda:

I. PRICING

1. *Revision of the current risk based assessment structure to better differentiate among risk profiles, with a provision for "special risk" assessments for de novo institutions, very rapidly growing ones, and other that pose special risks to the deposit insurance funds.*

2. *Explicit recognition of the "Too Big To Fail" (TBTF) policy in the form of a special assessment for TBTF banks.*

3. *Significantly expanded market discipline, beginning with the public disclosure of some essential safety and soundness information on banks and thrifts such as CAMELS ratings and a portion of the safety and soundness exam.*

4. *Significantly improved bank regulatory and supervisory discipline so there are better risk management procedures, earlier identification of problem banks, and a reduction in the cost of failed ones.*

5. *Merging of the OTS into the OCC as the first step towards a more effective and efficient federal financial institution regulatory structure.*

II. MAINTAINING THE FUNDS

1. *Merging of the BIF and SAIF insurance funds ASAP.*

2. *Increasing the 1.25% statutory designated reserve ratio (DRR) to 1.50%.*

3. *NO cap on the size of the merged fund.*

4. *NO rebates should be paid.*

III. COVERAGE

1. *NO increase in the $100,000 deposit insurance limit.*

2. *Significantly improved disclosure of non-FDIC insured bank products.*