March 31, 2009

Via electronic delivery

Mr. Robert Feldman
Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington D.C. 20429

Re: RIN #3064-AD35: Assessment Interim Rule

Dear Mr. Feldman:

Regions Financial Corporation[1] appreciates the opportunity to comment on the FDIC's Emergency Special Assessment Interim Rule (Interim Rule). While Regions believes that banks should self-insure depositors and the FDIC's Deposit Insurance Fund (DIF) is an important element of the banking system, we do not agree that a 20 basis points (bps) emergency assessment is an appropriate short-term approach during a recession. This approach would run counter to efforts to achieve long-term industry stability and economic growth.

The Interim Rule will remove $15 billion from banks when they need capital to lend to help lift the country out of recession. The FDIC needs to consider counter-cyclical policies as well as other sources, such as an increased line of credit with Treasury and surcharges from the Temporary Liquidity Guarantee Program (TLGP), to reduce the assessment to its lowest possible level. The FDIC should delay any special assessment greater than 5 bps in order to keep from unfairly burdening banks and undermining the broad goals of the FDIC program and bank regulation in these troubled economic times.

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[1] Regions Financial Corporation is a member of the S&P 100. Regions is one of the nation's largest full-service providers of consumer and commercial banking, trust, securities brokerage, mortgage and insurance products and services. With $146 billion in assets, Regions serves customers in 16 states across the South, Midwest and Texas, and through its subsidiary, Regions Bank, operates 1,900 Regions banking offices and 2,336 ATMs. Its investment and securities brokerage, trust and asset management division, Morgan Keegan & Company Inc., provides services from 332 offices. Additional information about Regions and its full line of products and services can be found at www.regions.com.

Background

Due to the recession and recent bank failures, the FDIC's Board of Directors made significant changes to the nation's deposit insurance system. In February, it extended the term in which the DIF reserve ratio must return to its statutory 1.15% level from five years to seven years. As a result of recent insurance payments and the FDIC's actions to create a $22.4 billion loss reserve for future failures, the DIF ratio was .40% at the end of 2008.[2] In addition, the Board set a new assessment rate schedule, significantly increasing the payments for many institutions. The 7 bps across-the-board premium increase took effect on January 1 and the risk-based assessment increases begin April 1. Regions' FDIC assessment may increase between $90 million and $110 million in 2009 as a result of these changes. Moreover, the FDIC adopted an interim rule setting a special assessment of 20 bps for June 30, to be collected September 30, 2009. The FDIC can impose an emergency special assessment of up to 10 bps per quarter.

In issuing the interim rule for comment, the FDIC asserts that it is important that the DIF "not decline to a level that could undermine public confidence in federal deposit insurance." To be sure, the fund needs to be replenished. However, the FDIC's current approach runs counter to the aims of Treasury and the Federal Reserve, to strengthen banks and promote lending. Finally, the FDIC Act of 1991 notes that in designating the reserve ratio the FDIC should "seek to prevent sharp swings in the assessment rates for insured depository institutions."

Overview

While supportive of the idea of self-insurance and recognizing that payouts from DIF will require assessment increases in upcoming years, 2009 is a challenging time to present an additional assessment, or tax, on the banking industry. Based on industry estimates of the deposit base, the FDIC's proposed actions could take an estimated $15 billion out of the banking system in 2009. The Interim Rule does not adequately consider the importance of an industry-wide return to profitability and the industry's needs to build deposits and capital so that it can continue to lend and lead the country out of the current, acute recession. Weakening the banking sector could slow overall economic recovery at a time when the country is dealing with the highest unemployment in two decades. Notwithstanding these concerns, we recognize the need to build DIF reserves. We support a 5 bps assessment charged in the third quarter. Additional assessment increases could be further evaluated at that time and other alternative, counter-cyclical plans could be considered. This staggered approach additionally would give banks time to plan for any additional assessment and would mitigate the need for rushed reactions that could lead to higher fees to customers.

Indeed, since the FDIC first proposed the 20 bps special assessment, several steps have been taken that would reduce the need for such a burdensome actions, including a Senate bill (Depositor Protection Act of 2009) to increase the agency's credit line with the Treasury and the FDIC's own recognition that it can use surcharges collected from the

[2] Since January 2008, 42 FDIC-insured institutions have failed, reducing the DIF. The DIF's reserve ratio is the lowest since 1993 when 41 insured institutions failed.

TLGP to bolster the DIF. Each one of these is a reasonable step to reduce the special assessment's impact on banks.[3] Regions supports both approaches. Combined they will allow the FDIC to significantly reduce the special assessment. The Financial Services Roundtable, additionally, has shown, there are other ways to replenish the DIF within the statutory requirements.

Supporting Banks' Central Role in Economic Recovery

Given the FDIC's overriding concern to maintain public confidence in the insurance fund, the Interim Rule cuts against the expressed policy aims of Treasury and the Federal Reserve to put bank lending at the center of the recovery from the current recession. The DIF is an important element of the banking system's stability but it is just one piece of the total system that helps to ensure public confidence in our economic institutions and their long-term viability.[4] Treasury Secretary Geithner and Federal Reserve Chairman Bernanke, in recent speeches, interviews and testimony, have advocated this long-term view that puts economic recovery first, followed by specific fixes to remedy systemic problems that will be required in the future. Bernanke told the Council on Foreign Relations in March that "until we stabilize the financial system, a sustainable economic recovery will remain out of reach." Bernanke has further emphasized that the recovery—and market confidence—should not be undermined by pro-cyclical policies. He told a bankers group in March that "capital rules, accounting policies and other regulatory standards should not make [banking] more difficult by encouraging excessively pro-cyclical behavior in financial institutions to tighten credit in downturns."[5]

The full Interim Rule assessment might hinder the economic recovery and undermine Bernanke's goal for "coordinated actions to restore financial market functioning and the flow of credit" as necessary before new systemic rules or capital or leverage requirements are adopted. These statements recognize that given the banking sectors vital role in rebuilding the economy, the banks should not face stresses that will impair capital levels or earnings, which in turn will weaken their ability to lend. The FDIC proposal might

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[3] The FDIC argues that absent a special assessment beginning immediately the smaller reserve "would create public confusion about the FDIC's ability to move quickly to resolve problem institutions and protect insured depositors." To the contrary, public confusion would be exacerbated by uncertainty about banks' futures—and this uncertainty would serve to further weaken institutions. In reality, it is the full faith and credit of the U.S. government that ultimately stands behind depositors—and the FDIC. In these extraordinary times, it is the best to rely on all areas to support depositors—including the FDIC's line of credit with Treasury—rather than just typical DIF mechanisms.

[4] The FDIC's original 20 bps approach conflicts with this broader goal of restoring confidence in the financial markets—and the numerous programs in the past six months to help to achieve this—with a more tightly focused aim on the DIF alone. Since the summer of 2008, the U.S. government and the Federal Reserve have taken numerous steps to restore confidence and liquidity in the financial markets, bolster housing and put money into the economy. These programs include the Capital Purchase Program, designed to support bank lending, the creation and expansion of the Term Asset-backed Securities Loan Facility (TALF), the stimulus bill and Treasury's Making Home Affordable programs. The FDIC has contributed to these goals through its TLGP and the temporary increase in deposit insurance coverage to $250,000 from $100,000.

[5] Indeed the international Basel Committee on Banking Supervision announced in March that it would "increase global minimum capital requirements during this period of economic and financial stress" and that "reactions in the market place regarding capital levels have been highly pro-cyclical."

counteract recent positive lending news. *The Wall Street Journal* reported on March 18 that the Federal Reserve's quarterly "Survey of Terms of Business Lending" showed that "contrary to recent rhetoric that claims banks aren't lending to businesses, [the] data show solid lending growth at record low contract rates. During the survey week [Feb. 2-6], banks extended $95.6 billion in credit to businesses, an increase of 13% from the same quarter last year."[6]

Impact on Deposits

Beyond draining earnings, the full Interim Rule, essentially acting as a steep tax, could destabilize deposit bases. Increased assessment rates will negatively impact deposits—and promote disintermediation—when strong deposit levels are needed to boost lending, the key engine of economic renewal. All customers will feel the impact of a burdensome special assessment that is addition to recent increases. Banks will have to find ways to assess the fees, which could have a large impact on the stability of deposits and the relative strength among banks and other types of financial institutions. Historical trends show that higher deposit insurance premiums drive deposits away from banks as they pass through the premiums in the form of lower interest rates or fees. A Financial Services Roundtable analysis of higher premiums on total banking deposits (from 1990-1996) shows a total drop in domestic deposits and a decline in the ratio of deposits to GDP.

Pricing pressures on bank deposits, particularly higher dollar products and services, such as money market and business accounts, could cause disintermediation. This disintermediation will have an overall impact on the deposits of banks versus other types of financial institutions and may fuel competition among banks. For a customer with $100,000 deposited in an account, the Interim Rule would act as a $200 tax. If customers feel a charge of this (or a lesser amount) is too much they may move assets to a brokerage firm with lower rates to avoid fees. The FDIC should recognize that an unintended consequence of its proposal may be to shift money to firms that enjoy other types of government guarantees but are not subject to this deposit fee.

These fee pressures are magnified in a low-rate environment and will be felt by the customer. For instance, a customer with a savings account would need $3,000 in the account to break even if the bank were to charge $3 per month in fees to offset part of the 20 bps special assessment. In the near future, deposits might move from one institution to another as customers move to banks with lower initial fees. Additionally, fees based on balances might serve as a disincentive for a customer to keep a higher balance with a specific bank.

Additional Pressures on Profitability

Other factors deserve attention too. First, the potential accounting implications of the special assessment—which may have to be booked in its entirety in the quarter it is

[6] Moreover, in its January "Monthly Bank Lending Survey" of the 21 largest CPP recipients, Treasury noted that consumer lending origination rose significantly and that overall loan balances increased 14% from the prior month.

decided—would hit banks hard during a critical earnings period, when analysts and potential investors are monitoring closely banks' profitability. The timing of this proposed levy is example of the FDIC's focus on the DIF without considering broader financial services industry aims. Next, this pressure on earnings is magnified as banks book sufficient loan-loss reserves or write-down the value of loans held for sale to reflect current real estate market conditions. Taken together, these steps could destabilize the short-term health of banks, making them less likely to lend and help to spur economic growth. In fact, the continued earnings pressures impact not only the overall economy, through lending, but also the ability of banks to maintain present employment levels. Soaring unemployment levels have impacted banks and financial institutions as well as other sectors of the economy.[7]

If the short-term prospects of banks are weakened, they might not be in strong enough positions to assist the FDIC in acquiring the deposits and assets of troubled institutions. The ability of banks to acquire troubled banks—which Regions has done on two recent occasions—lessens the costs of these failures to the FDIC and, ultimately, American taxpayers.

Alternative Approaches

The partnership between banks and the FDIC shown in the acquisition of troubled institutions further emphasizes the need for a well-rounded approach to deposit insurance that effectively considers the health and stability of both the banking system and the overall economy. On March 12, the Basel Committee on Banking Supervision and the International Association of the Deposit Insurers (IADI) issued their "Core Principles for Effective Deposit Insurance Systems," emphasizing the need for deposit insurance "to help maintain public confidence," a principle that Regions supports. The full report contends that deposit insurance "needs to be part of a well-constructed financial system safety net" and that it "is not intended to deal, by itself, with systemically significant bank failures or a 'systemic crisis.'" The FDIC can adopt alternative measures that will protect depositors and promote financial system stability, including a counter-cyclical approach, reliance on its line of credit from Treasury, and the use of TLGP surcharges.

It is critical that FDIC efforts to build up the DIF are not pro-cyclical. Banks should not face high deposit insurance costs at a time when they are least able to afford them and when the premiums will have the most punitive effect on the overall economy. As the Basel Committee and IADI "Core Principles" report indicates: "funds can be accumulated during strong economic conditions, when losses may be low, as a hedge against future needs when economic circumstances may be less favorable and losses higher, thus reducing the pro-cyclicality of funding." The FDIC Act of 1991 recognized this principle too and notes that in designating the reserve ratio for any year, the FDIC

[7] The national unemployment rate rose to 8.1 percent in February, up 3.3 percentage points from the prior year. In the past year, the number of unemployed has increased by five million and the number of part-time workers and people no longer looking for jobs has also increased. Employment in financial actives, as defined by the Labor Department, continued to decline in February. The sector lost 44,000 jobs in the month and has shed more than 448,000 jobs since its employment peak in December 2006, according to government figures.

board must "take into account economic conditions generally affecting insured depository institutions so as to allow the designated reserve ration to increase during more favorable economic conditions and to decrease during less favorable economic conditions."[8]

In the immediate term there are alternative ways for the FDIC to protect depositors, help to stabilize the banking system and begin to restore the DIF to its statutory-required level. Chairman Bair already has acknowledged that the special assessment could be reduced to 10 bps with the passage of the Depositor Protection Act of 2009. The bill would permanently increase the FDIC's authority to borrow from Treasury to $100 billion from $30 billion and would authorize a temporary increase in that borrowing authority above $100 billion, although not to exceed $500 billion, to address extraordinary circumstances. This bill is an effective step to address the present crisis; it further allows for a counter-cyclical cushion. Passage of the bill will bolster public confidence in the deposit insurance system. It is important to note that the insurance guarantee ultimately is backed by the full faith and credit of the U.S. government, not just the FDIC. The Senate bill underlines that relationship, giving the FDIC flexibility to manage DIF reserve levels while providing it access to significant liquidity during times of economic stress.

The FDIC Board, made aware of the need to reduce the economic pressures on banks, voted to impose surcharges on new, longer-term debt issued under its TLGP, and transfer that revenue to the DIF. As Chairman Bair said, the surcharge revenue collected in the second quarter, along with the proposed bill discussed above, "should enable the FDIC to meaningfully reduce the 20 bps special assessment" originally proposed by the Board. While the FDIC does not quantify the impact of this decision, the American Bankers Association estimates that it could further reduce the special assessment by 4 bps.

Moreover, the Financial Services Roundtable (FSR) has offered several alternative approaches that point to ways the FDIC could further shrink its special assessment in the near term and still replenish the DIF over the next seven years. In one FSR scenario, the FDIC would impose no special assessment in 2009 and would spread the fee evenly among institutions, at 3 bps, in the remaining years. A second FSR alternative assumes a slower economic recovery and so delays a special assessment for two years. That model adds a 3 bps assessment in 2011 and 4 bps assessment for the remaining years. These studies emphasize that the FDIC should further study counter-cyclical options that would not overly burden banks during these times of economic distress.

<u>Conclusion</u>

As we previously have noted, the Interim Rule special assessment is too burdensome and the timing of the proposed change too sudden. We agree that ultimately banks need to be responsible for the DIF, but specific FDIC actions should not serve to further weaken the

[8] The Federal Deposit Insurance Reform Act, signed into law in 2006, moved further in this direction. Continued discussion is needed, Regions recognizes, about the rebate provisions that cap the reserve ratio and limit the flexibility of the FDIC to build reserves during stronger economic times. These talks undoubtedly will coincide with the policy discussions about making permanent the temporary increase in the deposit insurance coverage.

industry during an economic downturn or run counter to broader U.S. economic and financial policy. Banks need adequate time to plan for future special assessment increases, which should be adopted in a counter-cyclical manner. For these reasons we could reluctantly support an assessment of 5 bps in the third quarter, at which time alternative approaches could be considered. The FDIC's public acknowledgment that it would use TLGP surcharges and an increased line of credit from Treasury to reduce the assessment from 20 bps is an appropriate first step.

It is critical during this recession and its impact on banks, that FDIC assessments not weaken the economic viability of banks and undermine their ability to lend and contribute to economic growth. Additionally, the FDIC assessments should not contradict the aims of government policies and programs to strengthen financial institutions and rebuild the economy.

Once again, we appreciate the opportunity to comment on the Interim Rule. If you have further questions, please contact Chris Scribner at (205) 264-5521.

Sincerely,

David Rupp
Senior Executive Vice President
Consumer Services