From: Jim Ashworth [mailto:jimashworth@cnbil.com]
Sent: Thursday, April 02, 2009 6:22 PM
To: Comments
Cc: info@icba.org
Subject: Special Assessment proposal

The special assessment proposals, both for an initial 20 basis point assessment and potential 10 basis point assessments in future quarters, would be a tremendous burden and unfairly penalize small community banks like ours (we operate a four-bank holding company, and this is one area where there are no economies-of-scale, unless you become too-large-to-fail). While it's understood that in most any insurance system, premiums from all insured entities are intended to cover losses from the few, in this case the premiums are assessed on domestic deposits which skews the actual risks posed to the FDIC fund among those paying the premiums. Risk-based premium calculations do take into account various risk components, but fall way short of capturing the risk differential between large institutions where only about half of their liabilities are assessed, and institutions like ours where nearly all our liabilities are assessed.

A more equitable method would be to assess total assets (less tangible capital). Should this method had been in place before the current financial crisis, there would have been incentive to avoid premium costs as a counter-balance to the growth and complexity of systemically risky institutions; and, although that alone would not have circumvented the crisis, the institutions most responsible for it would be footing more of the price tag.

One of our banks recently became the assuming bank of a failed institution. I realized a couple of related issues from that experience. Collectively, we will realize a decrease in the premium rate on the deposits being assessed from the failed institution, since our risk assessment after assumption will improve. However, being slapped with a special assessment on these "new" deposits would more than offset that, and would be an "unintended consequence" of being the successful bidder in this transaction; not that we didn't anticipate increasing premiums to replenish the fund, but certainly not to this degree.

The other issue concerns the estimate of losses that special assessments are intended to cover. In our instance, the estimated losses announced by the FDIC from the failed institution were much higher than either the FDIC team assigned to work with us, or our own due diligence team, could project. Therefore, I am skeptical that overall estimates of industry losses could be any more accurate than for a bank that was in the process of being dissected, after months of scrutiny. For this reason, it seems much more prudent to assess banks as actual losses are realized, rather than based on over-estimates.

Our very business concerns the time value of money. Should an excessive special assessment be averted by drawing on the authority to borrow from Treasury, that would be preferable if the interest rate charged and ultimately paid by assessed institutions is less than the net earnings power of funds otherwise expended in a special assessment. But that's just the math. The reality is that the level of the proposed assessments would be so significant that many institutions would drop in their capital ratings, and/or be unable to continue dividend streams to shareholders, which are essential to being able to tap that most likely source of local capital, ultimately helping the industry emerge from the doldrums.

I respectfully request the FDIC turn to a more palatable method of replenishing the fund than the proposed special assessments; and I appreciate the opportunity to present these comments.

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