LA09-528

Congress of the United States
Washington, DC 20515

April 2, 2009

The Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Chairman Bair:

We the undersigned Texans are concerned about the pro-cyclical impact the FDIC Board's February 27, 2009 proposal to levy special assessments on insured depository institutions would have on banks in general, and Texas community banks in particular, especially in this extremely stressful economic environment. We believe that the imposition of a 20 basis points special assessment on June 30, 2009 – due September 30, 2009 – and the FDIC Board's proposal to have the authority to impose up to an additional 10 basis points emergency special assessment at the end of any calendar quarter-- could have the unintended consequence of reducing the capital classification of Texas community banks, thereby resulting in enforcement actions or possibly eventual failures.

Texas community banks did not contribute in any meaningful way to the massive economic crisis that we confront. Most can serve a customer base rooted in individual communities and are not too big to manage, too big to fail, nor too big to resolve. Almost all of the Texas community banks are still in place meeting the credit-related needs of their communities, stepping up in many instances to fill markets vacated by their larger competitors.

Texas community banks have sound underwriting standards, are more than capable of managing their reliance on counterparties, and know their customers' needs and capabilities. Taxing Texas community banks with a special assessment of this magnitude when the banking industry is already under siege would have a negative impact on their lending capacity. Each dollar of special assessments they would pay to the Deposit Insurance Fund would result in a twelve dollar reduction in their lending capacity.

If the special assessment were implemented as proposed, it would eliminate approximately $1 billion of capital available to Texas community banks, and consequently small businesses, customers, and consumers in Texas. If that amount were leveraged, it would result in a loss of $12 billion in capital available for lending activity throughout Texas. At a time when responsible lending is critical to ameliorating the recession, this sort of reduction in local lending has the potential to extend our economic recovery unnecessarily.

We acknowledge that it is of the utmost importance that the Deposit Insurance Fund remain funded and be replenished to its designated reserve ratio of 1.15 percent over the next 5 to 7 years as proposed. But the vast majority of community bankers in the United States, especially Texas community banks, did not participate in the irresponsible lending that has led to the erosion of the FDIC's Deposit Insurance Fund. Texas community banks are the lifeblood of our communities they serve. They can continue to stimulate our Texas economy and nurse it back to health if required in the future. They will continue looking after the needs of local citizens and communities.

We are aware of the agreement between the FDIC and the Congress that the FDIC will reduce the proposed 20 basis points special emergency assessment up to 10 basis points provided we increase the FDIC's borrowing authority from the Department of Treasury from $30 billion to $100 billion. Recognizing the importance of ensuring the FDIC has all the authority it needs to protect the Deposit Insurance Fund should its Designated Reserve Ratio fall even more, possibly below zero, the House of Representatives passed legislation that would grant the FDIC an additional $70 billion in borrowing authority. We are also aware that the Senate intends to move legislation that would include language providing the FDIC with emergency borrowing authority at the Department of Treasury up to, but not to exceed, $500 billion with very strong checks and balances.

We support these initiatives.

While these are positive steps in the right direction, we think it necessary for the FDIC Board to consider a full range of alternatives to levying an assessment on Texas community banks that could also help sustain the balance of, and confidence in, the Deposit Insurance Fund.

The alternatives to imposing any special assessment on Texas community banks include, but are not limited to, the following:

- Base assessments on assets with an adjustment for capital rather than total insured deposits;

- Impose a systemic risk premium, which would place a heavier burden on financial institutions that pose the greatest risk to the deposit insurance fund;

- Use a combination of the line of credit and a reduced or postponed special assessment; and/or,

- Allow banks to amortize this new expense over several years.

We appreciate the efforts and resolve of the FDIC Board to ensure that the Deposit Insurance Fund is properly funded and fiscally sound in order to assure consumers that their funds are protected up to the prescribed limits by the United States government. We agree with the FDIC and its Board that it is imperative to maintain consumer confidence in our banking system, and sound deposit insurance is one of the cornerstones of their confidence level.

However, we remain opposed to any assessment on Texas community banks and believe we have provided the FDIC Board with a number of options to ensure the Deposit Insurance Fund's stability while minimizing the impact on Texas community banks' ability to keep money working in our communities.

We hope the Board will take our recommendations into consideration.

Sincerely,

Rubén Hinojosa
Member of Congress

Eddie Bernice Johnson
Member of Congress

Chet Edwards
Member of Congress

Solomon Ortiz
Member of Congress

Henry Cuellar
Member of Congress

Gene Green
Member of Congress

Al Green
Member of Congress

Sheila Jackson Lee
Member of Congress

Cc: Members of the FDIC Board:

John Dugan
Martin Gruenberg
Thomas Curry
Scott Polakoff