From: RBranca [mailto:RBranca@victorystatebank.com]
Sent: Friday, March 06, 2009 6:24 PM
To: Comments
Cc: Jay L. Hack; savobros@si.rr.com; Al Johnsen; BobCProject1@hotmail.com; cmperez1@hotmail.com; Cy Farkas; jjlvsb@yahoo.com; Nerlino Caddell; Ralph Branca (Home); Ralph Branca
Subject: Assessments, RIN 3064-AD35

Dear Chairman Bair,

It is with extreme shock and disgust that I write to you today to unequivocally request that you abolish the 20 basis point special assessment as proposed in your interim rules. To levy such a high assessment on a local community bank that **has not** 1) originated or purchased subprime mortgages and securities; 2) purchased any type of Collateralized Debt Obligations, including trust preferred pools of other institutions; 3) invested in any FNMA or FHLMC stock, whether it be preferred or common; 4) requested, applied or needed any capital under any programs issued under TARP and CPP; and 5) engaged in any reckless or speculative actions or decisions clearly defies all good common sense and reason. While we are painfully cognizant of the sensitivity and the public perception of the BIF fund and the associated FDIC insurance, we cannot idly sit by and have twenty pounds of flesh ripped from the corpus of a well capitalized and well managed institution, as most community banks are.

For Victory, this special assessment will require a payment of $400,000, in addition to the almost $200,000 in increased FDIC assessments enacted to date. This of course does not contemplate the additional 10 basis point assessment that the FDIC may assess each quarter, which amounts to another $200,000 per quarter! Victory State Bank has assets of $210 million and last year posted net income of $1.93 million on pre-tax revenue of $3.45 million. If the FDIC requires payment of all the assessments that they have the power to levy, we will be forced to pay $1.2 million in potential fees. That is over 35% of pre-tax income and over 62% of our net income. Under the rosiest of all scenarios, we will be forced to pay $600,000, or over 17% of pre-tax income. This is totally outrageous and is akin to have the innocent pay for the huge mistakes of others. In 2007, we paid $123,000 in FDIC assessments. The proposed assessment and special assessment structure amounts to at least five times the 2007 amount in the best of all situation. There certainly is no equity in this!

The enormous increase in FDIC assessments, the increase in our loan loss provisions due to the unprecedented weak economy and real estate market, increased competition on our ability to gather deposits due to irrational pricing by some financial institutions, will cause banks like Victory State Bank to suffer large losses that lead to the erosion of our capital base. This is most definitely counterintuitive, as this can turn healthy institution with excess capital like Victory into institutions that need bailouts and possible resolution, which in the end will cost the BIF more than you are currently projecting. The effects of this will lead to reduced lending, layoffs of personnel and force us to retreat from the communities that we serve because we are financially unable to do so. This will exacerbate the local economic depression, lowering both corporate and personal tax rolls, and will intensify the economic downward spiral that we seemed to be entangled in.

Beyond the current financial inequity of the special assessment, I ask myself why the community banks like Victory, the stalwarts of the community and the engines for economic revival and growth, are being penalized for “doing the right thing” and for taking our fiduciary responsibilities very seriously. We are the bright spot in this economic storm and we are being tarnished by the same brush of the totally, irresponsible officers and directors of these larger institutions that thought they were in Las Vegas or at the horse track when they bet their depositor’s money on risks and gambles that they never should have engaged in. In fact, all of us are paying for this special assessment for the large banks because they will dip into the TARP funds to pay the assessments. I am sure that we will hear all the double talk about how the money is segregated, but the bottom line is that without the TARP bailout, many of these institutions are insolvent and unable to pay any bills!

Now to address the lack of funs in BIF. There are certainly more palatable solutions that should be prioritized above this special assessment namely:

1. Broaden the assessment base to include consolidated assets of the parent, not just domestic deposits. As most of the riskier activities involved subsidiaries and lines of business that were not directly tied deposit gathering or prudent lending criteria, the assessment should reach the consolidated entity as a whole, not just a smaller piece. This would force the larger and more risky institutions to bear their proportionate "risk-adjusted" share. This can lower the special assessment from 20 basis points to 12 basis points while still generating the $15 billion that is needed for BIF.
2. Create and charge a systemic risk premium for institutions that believe that bigger is better. As we are painfully being educated, bigger just increases the level and magnitude of problems and losses and limits solutions that are available for smaller, more efficiently run institutions. This will create a "risk parity" and a barrier to entry that management and a board must properly evaluate before they subject the country and the industry into the quagmire that we are presently in.
3. Increase the borrowing authority of the FDIC from its current, outdated level of $30 billion, to $500 billion in the short term, adjusting that level downward as the crisis abates. This will forestall the need for special assessments and increased assessments rates in general.
4. Create a special assessment credit of 10 basis points for institutions that did not receive any TARP funding. Since the larger institutions are already enjoying assistance in the form of TARP, why shouldn't those of us who know how to run a safe, effective, responsive and viable community bank be rewarded from saving not only the US government money but the BIF as well.
5. Evaluate the use of other financial instruments such as issuing debt instruments to the public or borrowing from the healthy institutions like Victory, at a reasonable rate of return. Again, this will allay the need for special or higher assessments.
6. Increase the period of time that this special assessment will be imposed from one quarter to several years to allow a more reasonable time period for all institutions to accrue for and pay the assessment. The extended time would be used in conjunction with the borrowing from the Treasury in order to facilitate sufficient funds for BIF.
7. Finally, to continue to charge the institutions that required TARP bailouts an increased assessment rate and to rebate to the healthy community banks the assessments that they paid on the larger institutions behalf. This would occur once the BIF is above the statutory ratio and will continue until the community banks are repaid for disproportionately shouldering the burden of this crisis.

The tenor of this e-mail is deliberate so as to convey the true feelings of community banks like Victory State Bank that offer only solutions to our economic crisis and yet are asked to be subjected to financial policies that will hamper our ability to lend, retain personnel and to help the communities that we serve with pride and distinction.

Sincerely,

Ralph M. Branca
President & CEO
VSB Bancorp, Inc.