From: Rob Sullivan [mailto:robsullivan@oakbank.com]
Sent: Tuesday, March 03, 2009 11:07 AM
To: Comments
Subject: Assessments - Interim Rule - RIN 3064-AD35

Dear FDIC Chairman Bair,

In my humble opinion, a 20 bp one-time special assessment says a lot about the FDIC and its fiduciary responsibility to member banks. It says that taking unmitigated risk is acceptable. It says the FDIC supports unadulterated abuse of the financial system. It says that bad habits will be tolerated. The one thing it does not say is "We want to fix the system". You address your member banks with fear that if we don't do this, the system will break down and all banks will be labeled and painted with a broad brush. In reality, that ship has sailed, the picture has been painted and unfortunately with a very broad brush. As officers of banks and members of the financial community we're no longer focusing on doing business, but rather, just surviving. The sooner the FDIC understands the pressures that are already on member banks, the sooner we'll be able to address the real problem here. The real problem is not that the fund has been deteriorated, but rather, how has it gotten to this point. There are two reasons for where we are today: market risk and systemic risk. Your blind 20 bp special assessment does nothing to address the issue of how the FDIC has failed to secure an adequate insurance fund to protect the industry from these two risks. That's a problem that will need to be addressed with your regular assessments, as I believe you have done with your plan to restore the fund over the next 7 years. Hopefully within that strategy you have addressed the need to account for both market risk and systemic risk as you have failed to do to date.

So how do we fix the problems that have been created by the financial industry today? The first thing we need to understand is how to avoid behaviors that have created the situation in the first place. Moral hazard is a term that has been used again and again in troubled times. It is a cliché but at the same time a reality. Moral hazard will always exist but if we take steps to reduce the risk of moral hazard, we can only hope to contain it to controllable levels. Hammering all banks with a sweeping 20 bp one-time special assessment does nothing more than encourage the moral turpitude that we all so desire to rid the system of.

The solution? I think the FDIC needs to address the situation with a little more creativity than just a gut-shot, reactive approach. Yes, we need to be mindful of the fact that heavier burdens on weaker institutions could create deeper problems for the industry as a whole. But we also have to be mindful of the types of behaviors we are encouraging by allowing the healthy institutions to take on the burden of those that have been irresponsible. One option is to treat this 20 bp special assessments as a loan (from Risk Category I banks) and a contribution by other risk categories. Risk category 2, 3, and 4 banks wil pay back this "loan" with increased assessments after the industry has recovered enough, at the same time decreasing the investment in the fund by risk category 1 banks by the 20 bp plus interest. That way, the fund still gets its infusion of capital, the healthier banks are not penalized for doing their job adequately, and weaker institutions are not burdened by the additional weight today. Coupled with this approach there needs to be a complete re-assessment of the risk categorization of banks. I don't pretend to be an expert on your process of determining risk categorization but I do believe that a necessity within the process is addressing banks that have the tag of "Too Big to Fail". It's obvious to me that the size of these institutions alone contributes to the market and systemic risk factors that have put the FDIC in its current predicament. Take two banks, each considered "well capitalized" and CAMELS rated 1. One bank is $100 billion in assets and the other is $100 million. Do both of these institutions put the same stress on the fund? Of course they don't, so let's stop pretending concentration risk doesn't exist within the FDIC structure as well. The impact of failure that each has when systemic risk comes into play is extraordinarily different. Their risk categorization and contribution to the fund should reflect that.

I hope that I have made some sense. My fear is that in attempting to prop the industry back up we'll be glossing over the problems that got us into the situation to begin with. My hope is that we don't base our decisions on fear or self-preservation but for the good of the system, which will be the only thing left after you and I have left it.

Sincerely,

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