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To: Comments
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On behalf of the Kentucky Bankers Association and its member banks and thrifts doing business in the Commonwealth of Kentucky, I would first like to offer you our appreciation for this opportunity to comment on the FDIC Premium Prepayment Proposal released on October 2, 2009. We would also like to thank you and the FDIC staff members who participated on the ABA hosted industry call to discuss this proposal.

The industry call with the FDIC certainly helped us to understand the situation that faces the Fund, as well as the analysis that was used to determine the proposal. However, it is my concern that the prepayment proposal places healthy traditional banks at short term risk with little compelling counter interest.

The banking industry understands the value of a continued and healthy FDIC. It promotes confidence in the banking industry and reassures consumers about economic concerns. The industry also recognizes that the Fund must be supported and replenished by the industry in order to maintain the strength and integrity of the FDIC. But, imposing a prepayment requirement on an industry already straining under the burden of a special assessment, economic recession, high unemployment and increased compliance/regulatory burden, will do more harm than good. It will create an additional financial burden on the industry when it is experiencing already unexpected low earnings. Additionally, it places the burden squarely on the shoulders of banks that were not responsible for the current economic worries. Some of these banks are now faced with negative earnings and uncertain futures. The cure seems to be worse than the illness for most community banks.

Responsible banks should not be assessed and penalized to such an extent that the assessment alone could spin the bank into financial crises. With so many other options available, it would seem more prudent to offer a different funding option, while still recognizing that the industry holds the ultimate responsibility for the Fund.

One option that should be utilized immediately is the Temporary Liquidity Guarantee Program (TLGP). The TLGP has been a successful program and projected losses are minimal. Using these funds now, for the purpose of bolstering the BIF makes sense and is consistent with the purpose of the TLGP.

Another option would be to borrow from the industry. A structure similar to FICO bonds offered during the savings and loan crises would be a viable option to replace or supplement the prepayment option. Such an offering would provide an investment opportunity for those banks which would benefit, while reducing the prepayment burden to some level on those which cannot. This type of structure has been successfully utilized in our industry in the past—we are familiar with it and it would place banks in a position of full responsibility for replenishing the Fund's needs.

Finally, we would implore you to consider utilizing the Treasury's Line of Credit. The industry was very supportive of the FDIC's desired increase from $30 billion to $100 billion. We understood the need for the FDIC, especially when faced with economic challenges such as those we face now, to have access to increased working capital. While this would not be the most desirable option, it is preferable to setting traditional banks up for failure, which would result in additional loss of consumer confidence. These are hard and unusual times. If there were ever a reasonable justification for drawing on this line of credit, it would seem to be now.

With the assistance of one or a combination of these alternatives, the traditional banking industry can weather these times. The public can maintain faith in the industry and the FDIC guarantee and we can all move forward with complete confidence that we are taking care of our own industry. Then, with this behind us, we can proceed in better times to plan for future troubled times. Develop a plan of preparation before the crises that does not weaken an already embattled industry, but instead strengthens it and leaves a legacy for our future.

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