



3-17-09

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th, N.W.
Washington, D.C. 20429

RE: RIN 3064-AD35
Assessments

Dear Mr. Feldman:

The Kansas Bankers Association appreciates the opportunity to comment on the FDIC's interim rule that would impose a special assessment of 10 or 20 basis points on the banking industry. The KBA is a non-profit trade association that is fortunate to have 327 of the 329 banks in Kansas as members.

While we have serious concerns about this proposal, we first want to emphasize that the banking industry in Kansas is fully committed to re-building and maintaining the FDIC fund. We also fully support the view of the FDIC that we need a strong, financially secure fund in order to maintain the confidence of depositors in the system. Most banks in Kansas were never involved in subprime lending and have served their communities in a responsible way for years and years and are now being unfairly penalized.

That being said, we feel that this is the wrong time to take this huge amount of money out of the Kansas economy. We are already dealing with a deepening recession, accounting rules that overstate economic losses and unfairly reduce capital, regulatory pressure to classify assets that continue to perform, and a significant increase in regular quarterly FDIC premiums.

The following demonstrates that the special assessment would have a big impact on the earnings and capital of the banks of Kansas. If the special assessment were 20 basis points, the total dollars taken out of the Kansas economy would be \$80 million. That figure represents about 14% of the total pre-tax earnings of Kansas banks for 2008. We believe those dollars are far better off staying in the local economy, helping our state and country to come out of the current economic recession. In addition, the reduction in earnings will make it more difficult to build capital when it is needed the most.

There are several things that can be done to alleviate this situation; we will discuss 2 of those items:

- 1) We would urge you to look for and if necessary advocate for ways to improve the projections for bank failures.
 - In our opinion, mark-to-market accounting is the principle reason that our financial system is in a meltdown. The destructiveness of mark-to-market -- which was in force before the Great Depression -- led FDR to suspend it in 1938. He understood that it was unnecessarily destroying banks. We do not believe the timing of the re-implementation of mark-to-market in the fall of 2007 and the current economic crisis are coincidence.
 - The concept of a “bad bank”, or the ability to separate the bad assets from the good ones would seem to have merit and would allow problem assets to be dealt with separately and systematically, while other banking operations could continue under a transparent, focused framework.
- 2) We would urge you to seek ways to “smooth out” the assessment collection process. Again, we know the Fund needs to build up to statutory levels, but, as we stated earlier, collecting a large portion, all at once, is very harmful to the Kansas economy.

We thank you for your consideration of lowering the special assessment if Congress increases the line-of-credit utilized by the FDIC. This is one way to spread the collection of assessments over time. We understand the stated reluctance to utilize the line of credit because of the appearance of tax-payer money being used to “bail-out” the fund. However, we would argue that extraordinary times such as these are exactly for what the line of credit was designed. The line of credit is a type of loan that is utilized by businesses all over the country to help with unexpected cash flow deficiencies. Utilization of the line of credit would not nullify the use of bank funds to re-capitalize the Fund. Rather, it would be a loan that the banking industry would re-pay, and could be a tool that would help “smooth out” the funding process.

We would also urge you to look at other possible ways to “smooth out” the funding process:

- Use some sort of debt option: either a “FICO” like offering, similar to what was used to alleviate the FSLIC funding crisis or possibly a convertible debt option, whereby the FDIC could convert debt borrowed from the banking industry into capital to offset losses if it needs the funds. This would allow banks to write off the expense only when the funds are actually needed;
- Use the revenue that the FDIC is collecting from the Temporary Liquidity Guarantee Program. There is considerable revenue being collected from those banks that are issuing guaranteed debt which would help support the FDIC at this critical time.
- If smoothing out of the actual special assessment is not possible, we urge you to look for ways to allow banks to amortize the special assessment, for accounting purposes, on their books.

It is our understanding that many of the suggestions for smoothing out the funding process are hampered by current accounting rules. Why should onerous mark-to-market accounting rules and the road blocks put before us for recapitalizing the Fund hold the industry hostage? There must be a way to prudently suspend these accounting rules on a temporary basis so as not to be a major burden to the recovery of the banking industry.

Making these modifications will ensure that the fund remains secure and will allow Kansas banks to continue to lend in our communities. Thank you for allowing the KBA to express its concerns and to make suggestions. We know you will keep these things in mind when the Board meets in April to finalize the special assessment rule.

Charles A. Stones
President & CEO

Kathleen Olsen
SVP & General Counsel