AMERICAN BANKERS ASSOCIATION

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September 21, 2009

FDIC
OCT 19 2009
OFFICE OF THE CHAIRMAN

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

Dear Chairman Bair,

We appreciate your comments last week that the FDIC was looking at all possible alternatives to assure that the FDIC has the necessary resources to meet its obligations. ABA has long supported a balanced approach that provides the FDIC with the necessary funding but is sensitive to the near-term impact on banks and the communities that they serve. The banking industry remains firmly committed to protecting the financial health of the FDIC. As we have stated many times before, it is a question of the timing of bank premiums, not of the willingness of banks to fully support the fund. We appreciate your efforts to look at options that meet the long-run funding needs of the FDIC without creating an enormous short-term financial burden on banks that could reduce bank lending and hurt the economic recovery.

This is clearly a very challenging time for the economy and our industry. Banks are making every effort to meet the credit needs of their customers in this recession. In some areas of the country, high unemployment and business failures have combined to create losses which have stressed banks' balance sheets, depressed income, and reduced capital ratios. The impact of higher insurance assessments – including the second quarter special assessment – is already having a negative impact. It added considerable costs to the industry and, as you noted in releasing the Quarterly Bank Profile, was a significant contributor to the negative net income recorded for the industry in the second quarter. We are concerned that additional heavy premiums on the industry may do more harm than good. The preferred approach is one that would maximize the resources that will be available to meet the credit needs of our communities, while providing a long-term plan to support the FDIC fund.

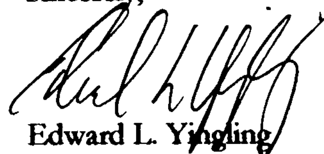
As ABA noted six months ago, the Temporary Liquidity Guarantee Program (TLGP) program provides the best immediate option available to the FDIC for funding. Certainly, the surcharge revenue has been helpful, and was an excellent first step; however, we believe that some portion of the revenue from the debt guarantee program could be transferred to the insurance fund, since the outlook for losses to the TLGP remains very low. As the TLGP resources will redound to the fund at some point, we believe transferring monies now makes a great deal of sense.

We also believe that borrowing from the industry provides some very viable options that are worth considering. We have previously suggested that using a FICO-like approach could provide a source of capital funding for the FDIC. Separately, we recognize the importance of having sufficient cash on hand to handle failures. To fill the cash needs of the FDIC, the industry believes that pre-paid premiums or borrowing from the industry show great promise and are preferred to borrowing from the Treasury for this purpose. We pledge to work with you to flesh out these and other alternatives.

ABA was also very supportive of FDIC's efforts to increase the Treasury's line of credit from $30 billion to $100 billion, which Congress enacted into law. Not only does that expanded line provide greater flexibility to meet FDIC's working capital needs, it also provides a line to cover failure costs should that be necessary. Of course, drawing on the Treasury line of credit is not a preferred option for either the FDIC or the banking industry. However, we agree it is now appropriate for the FDIC to consider this option in view of the possibility of increasing losses to the insurance fund and the pro-cyclical nature of large premium increases. Therefore, having contingency plans to use this line of credit in combination with other funding options is appropriate. As you know, if there is such a borrowing, the banking industry would be fully responsible to repay that borrowing with interest. As House Banking Committee Chairman, Barney Frank, noted: "Banks will ultimately have to pay it back but I think this is a case where it would be pro-cyclical." We would note that the National Credit Union Administration (NCUA) has already borrowed on the line of credit of the Treasury's Corporate Credit Union Stabilization Fund. Credit unions are obligated to repay this borrowing over seven years (with interest) to the Treasury.

We appreciate your careful consideration of the consequences that significant premium payments have had, and will have, on banks and their local communities.

Sincerely,



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