The Savings Bank

Since 1869

14 October 2009

Mr. Arthur J. Murton
Director
Division of Insurance and Research
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429-9990

Re: Prepaid Assessments – Notice of Proposed Rulemaking (NPR)
FIL-58-2009

Dear Mr. Murton,

Thank you for this opportunity to comment on the NPR for Prepaid Assessments. We applaud the efforts of the FDIC to find creative ways in which to attempt to solve the shortfall in funding for failed banks without causing unnecessary impacts to capital, earnings, and liquidity for those banks that continue to operate profitably and prudently and provide credit for consumers and businesses.

We offer the following comments:

Calculation of Prepaid Assessment Amounts: we agree with the five percent annual growth rate through the end of 2012 but offer that it may be premature to level a three basis point increase in the assessment rate for 2011 and 2012 given the fact that once the industry begins to stabilize this increase may prove unnecessary. Further, a uniform increase of three basis points seems to negate any advantage for being a well-capitalized bank with higher levels of risk-based capital.

Accounting for Prepaid Assessments: first, we would oppose any alternative treatment to the prepaid asset stipulation that has a direct, immediate impact on earnings and capital. As proposed, we support this treatment. Second, as the prepayment period is for years 2010, 2011, and 2012 it seems unfair to refund any "excess" amount at the end of 2014. This is akin to having a tax refund due but having to wait two years to receive it. While it is expected that the excess balance, per institution, may be small there is, nevertheless, an opportunity cost to not receiving the funds sooner. Any funding not exhausted by year-end 2012 should be returned to banks during the first quarter of 2013.

Risk Weighting of Prepaid Assessments: we concur with the zero percent risk rate as proposed.

Other comments:

We strongly believe that, as was the case with the Special Assessment previously levied, that the prepaid assessment should be based on total assets minus Tier 1 capital. Those banks with significant borrowings pose a greater risk to the DIF than banks without borrowings as assets are being pledged that may turn out to be more difficult to divest in the event a bank fails. Further, as the cost of borrowings (specifically from the FHLB system) continues to be less expensive than gathering traditional deposits to fund growth, an assessment based on deposits penalizes those banks that support consumers and businesses by raising deposits (increasing their cost of funding) rather than by borrowing.

We believe that no further special assessments should be levied. These special assessments negatively impact earnings, capital, and a bank's liquidity.

We would support the FDIC's pursuit of borrowing from the Treasury or the Federal Reserve Bank in conjunction with the prepaid assessment proposed to bolster public confidence in the DIF.

We believe that prepayment should be mandatory for all and not voluntary for some.

We believe that the five percent growth factor should be applied to either deposit growth OR asset growth depending on which method of assessment is ultimately chosen. Should the assessment be based on deposits rather than total assets minus Tier 1 capital there would be further incentive to grow via leveraged borrowings rather than by attracting deposits. We believe this is detrimental to the longer-term viability of the DIF.

Again, thank you for opportunity to comment. If you should have any questions please feel free to contact me.

Sincerely,

Brian D. McCoubrey
President and Chief Executive Officer