



***Community Bankers
Association of Georgia***

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October 26, 2009

Robert Feldman
Executive Secretary
Attention Comments
Federal Deposit Insurance Corporation
550 17th Street
Washington, D. C. 20429

SUBJECT: Comment Letter on RIN 3064 – AD49: FDIC’s Prepaid Assessment Proposal

Dear Sir:

The Community Bankers Association of Georgia (CBA) appreciates the opportunity to submit comments on the proposed rulemaking by the Federal Deposit Insurance Corporation which would require banks to prepay deposit insurance assessments. CBA is a non-profit trade association representing community financial institutions in the state of Georgia. CBA has over 275 member institutions, including state and nationally chartered commercial banks and thrift institutions, geographically dispersed throughout the state of Georgia. The Association provides support services for the community financial institutions in the state by providing extensive education and training programs, group purchasing programs, governmental affairs representation, and various networking opportunities.

The FDIC’s proposal to require all insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 on December 30, 2009, and for all of 2010, 2011, and 2012, in order to address the liquidity needs of the Deposit Insurance Fund will certainly create a burden on the community banks in Georgia. However, our member institutions definitely find this proposal preferable to the FDIC imposing one or more additional special assessments at a time when the industry is under considerable stress. Also, while we understand the issues which create concerns for the FDIC with borrowing from the Treasury,

we believe the FDIC needs to give careful consideration to the extreme burden the prepaid proposal will place upon many community banks and the resulting reduction in lending in many of their local communities. Further, this reduction in the ability to lend will likely slow the economic recovery in many communities. With that said, in view of the alternatives, the member institutions of CBA reluctantly support the prepayment proposal. We do, however, have a number of recommendations that we ask you to consider before finalizing the proposal.

First and foremost, the assessment base used for the prepayment calculation should be total assets minus Tier 1 capital, the same assessment base that was used for the second quarter special assessment. A broader assessment base such as assets minus Tier 1 capital would result in a more equitable assessment system since it would require larger banks to pay a share of the assessments that is proportional to their size. If the current proposal is implemented and only domestic deposits are assessed, banks with less than \$10 billion in assets will prepay approximately 30% of the total prepayment assessment, although they hold only approximately 20% of total bank assets. Such a system based upon an assessment base of domestic deposits does not properly reflect the risk to the Deposit Insurance Fund (DIF) posed by the nation's largest banks versus the risk posed by community banks. This creates an unfair situation for community banks. The amount of assets that a bank holds is a more accurate gauge of an institution's risk to the DIF than the amount of a bank's deposits.

Secondly, we are concerned with the fairness of the requirement for using a 5% growth rate for purposes of calculating the amount of the prepayment. Some of the Georgia community banks located in rural areas historically have had slower growth rates than the five percent. Even community banks with historic growth rates at or above 5% are finding it hard to sustain those growth rates in the current low interest rate environment. Furthermore, a number of banks in our state are in the process of shrinking their deposit base in efforts to preserve capital and reduce dependency on brokered deposits. Therefore, a 5% annual growth rate would seem to be an unfair burden for many community banks in our state. If a 5% growth rate is to be used we recommend a mechanism for a rebate of prepaid assessment amounts when the prepayment significantly exceeds the actual assessment for any given year. For instance, if a bank's prepaid assessment for 2010 exceeds 20% the amount of its actual assessment for that year, then the FDIC should refund the excess soon after the end of 2010.

Thirdly, greater clarity is needed in the section of the proposal dealing with exemptions from the prepaid assessment requirements for safety and soundness or other hardship reasons. In cases where an institution could potentially be exempted for safety and soundness or other hardship reasons, we believe the institution should be provided notice about the exemption much earlier than the December 24th date indicated in the proposal. Institutions simply need longer than six days to plan and prepare for not being exempted, and even if the institution is

to be exempted the earlier it can become aware of the exemption the more prudent it can be in its decision making process. We strongly recommend that institutions to be exempted on the basis of safety and soundness be notified no later than thirty days after the adoption of the final rule. Also, we recommend that those institutions applying for a hardship exemption be notified within 14 days of filing the application. Additionally, we believe greater transparency is needed in the rule regarding which institutions may qualify for safety and soundness and in particular hardship exemptions. For example, if an institution will have to sell securities in order to generate the cash to pay its prepaid assessment amount, is that a hardship due to the loss of earnings from the security, and/or if the bank has to take a loss on held to maturity securities?

Finally, in regard to the question posed in the proposal regarding whether FDIC should incorporate a provision "requiring a special assessment or a temporarily higher assessment rate schedule that brings the reserve ratio back to a positive level within a specified time frame (one year or less) from January 1, 2011, when the FDIC projects industry earnings will have recovered, we strongly urge against the inclusion of such a provision." First, projecting when industry earnings will have "recovered" is extremely difficult in the current environment. Secondly, the inclusion of such a provision would even further restrict lending and further forestall economic recovery, perhaps even creating greater problems in the banking industry and greater stress on the DIF. In short, much of the industry simply cannot afford such additional assessments on top of the burden created by the currently proposed prepayment plan.

Again, thank you for the opportunity to comment on the FDIC's prepaid assessment proposal. We hope you will consider these comments carefully before finalizing this proposed rule. If you have questions about this letter, please do not hesitate to contact Steve Bridges by e-mail at steve@cbaofga.com.

Sincerely,

A handwritten signature in cursive script that reads "Steven D. Bridges".

Steve Bridges
Executive Director of Legislative and Regulatory Affairs