Massachusetts Bankers Association

October 28, 2009

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: RIN 3064–AD49, Prepaid Assessments

Dear Mr. Feldman:

On behalf of our 195 commercial, savings and co-operative banks, federal savings banks, and savings and loan associations throughout Massachusetts and New England, the Massachusetts Bankers Association (MBA) appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) proposed rule regarding prepaid assessments. Under the proposed rule, banks and savings associations would be required to pay assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012 by December 30, 2009.

MBA believes a strong Deposit Insurance Fund (DIF) is essential to maintaining depositor confidence, particularly given the current economic crisis. As more and more Americans engage in a "flight to quality" and move their savings into insured deposit accounts, it is imperative that these depositors have confidence in the strength of the FDIC and the deposit insurance system. The proposed rule will provide the DIF with approximately $45 billion in funding that will provide additional liquidity to the FDIC over the next several years.

The Association appreciates the agency's willingness to consider alternatives to an additional special assessment, particularly given the continued pressure on all institutions due to the economic downturn. We oppose the FDIC imposing another special assessment on the industry during these difficult economic times, and we expect that given the prepayment, an additional special assessment during the next several years will also be unnecessary. While we understand the FDIC's reluctance to utilize the line of credit with the Department of the Treasury, we encourage you to keep this option open, particularly if economic conditions worsen in 2010.

MBA also believes the FDIC should consider using a longer-term solution, similar to the FICO bonds that might allow banks to write off the expense over time or only when the funds are actually needed. An approach similar to the original Financing Corporation (FICO) to issue bonds and invest the proceeds into the insurance fund could be utilized. This would provide a lower initial payment by the banking industry and would again represent an investment in an asset, rather than an expense against earnings. The original FICO bonds were sold directly to the public. In a similar scenario, new bonds could be publicly issued or sold directly to banks by the FDIC.

Our specific comments on the proposed rule will focus on the calculation of the prepaid assessment amounts and the accounting of the prepaid assessments.

<u>Calculation of Prepaid Assessments</u>

Under the proposed rule, the FDIC will calculate an institution's prepaid amount, for the fourth quarter of 2009 and for all of 2010, using the institution's total base assessment rate in effect on September 30, 2009.

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will estimate a 5 percent annual growth rate through the end of 2012 from the assessment base. In addition, the overall assessment rate would be increased by 3 basis points for all of 2011 and 2012. This represents a 30 percent increase for most Massachusetts banks – an amount that should be reviewed and possibly reduced as conditions improve.

MBA is concerned that the FDIC's estimate of 5 percent deposit growth over the next three years is overly aggressive. In Massachusetts, deposit growth has averaged approximately 2.4 percent over the last four years. Even at the height of the economic boom, deposit growth in the Commonwealth reached only 2.90 percent. Given the ongoing economic recovery, and still-stagnant job growth in this region and others, we believe that the FDIC should consider revising this estimate downward to 3 percent projected deposit growth.

While we understand that this will impact the amount the FDIC expects to receive from the prepayment, the Association believes that a lower projection provides that institutions in areas of relatively weak deposit growth, including New England, will not pay far more in premiums than they would under normal circumstances. In addition, we would encourage the FDIC to study ways to pro-rate the assessment on a regional basis, given that some areas of the country have experienced far more rapid growth than we have in the northeast. In this way, no bank or region would be penalized by an overly aggressive growth assumption.

Accounting of Prepaid Assessments

We are also concerned that under the rule, the FDIC will not refund any overpayments until December 31, 2014 – two years after the final assessment date. MBA believes that banks that overpay should have any excess funds returned to them in 2013 or as soon as practicable. Industry conditions could change significantly in the next several years and the additional funds may be unnecessary for the DIF. However, a refund of any overpayment might help many banks increase their liquidity. We believe this is especially important if the FDIC chooses to use the 5 percent deposit growth estimate, since the vast majority of institutions in Massachusetts will likely overpay based on historic deposit growth data.

Finally, we believe the FDIC should provide banks the option to expense the prepayment entirely in 2009. While clearly not every institution will opt to do this, some banks may decide that they would prefer to take all of the losses in the fourth quarter of this year. We strongly encourage the FDIC to work with depository institutions and the accounting industry to ensure that all banks retain this option if they so choose.

Conclusion

Thank you again for the opportunity to comment on the proposed rule regarding prepaid assessments. We urge the FDIC to take these issues into consideration as the Board prepares to issue a final rule. We also encourage you to continue studying various proposals to recapitalize the DIF while lessening the impact on the banking industry during these difficult times.

Thank you for the opportunity to comment on the proposed rule. If you have any questions or would like additional information, please contact me at (617) 523-7595 or via email at jskarin@massbankers.org.

Sincerely,

Jon K. Skarin
Director, Federal Regulatory & Legislative Policy