10/27/2009

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

Attention: Comments - RIN 3064-AD49
Subject: Prepaid Assessments

Dear Mr. Feldman:

The Community Bankers Association respectfully submits comments regarding the FDIC proposal to require all insured institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, in order to address the liquidity needs of the Deposit Insurance Fund.

With more than 450 member financial institutions, including state-chartered and federally-chartered commercial banks, savings banks and savings and loan associations, CBAI is the third largest state-organized trade association in the United States that represents the interests of financial institutions. CBAI's member financial institutions serve communities and neighborhoods in Chicago and in the smallest towns in Illinois. They serve Illinois' manufacturing centers, educational centers, and agricultural areas. Our members perform an essential function of addressing the financial needs of their local customers and providing small business lending that is the economic lifeblood of America's heartland. Most importantly, Illinois' community banks conduct traditional banking operations that do not include the subprime, predatory, and other high risk practices that represent a disconnect between the financial service provider and the interests of the local customer.

While there are many options to replenishing the DIF, it is crystal clear that the banking profession must ultimately bear its cost. The prepayment proposal is preferable to the FDIC imposing one or more additional special assessments at a time when the profession is under stress and ensures that the deposit insurance system remains directly funded by the banking profession. It is also CBAI's belief that this proposal is the lowest cost and most politically viable option. **Therefore, the three year prepayment proposal is an option that we can accept if the FDIC incorporates the following revisions into its final rule.**

First and foremost, the assessment base used for the prepayment calculation should be the same assessment base that was used for the second quarter special assessment; i.e., an institution's total assets minus its Tier 1 capital. The broader assessment base will result in a fairer assessment system with the larger banks paying assessments that are more proportional to their size. If 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 approximately 20% of total bank assets. This outcome would not be fair to community banks and not accurately reflect the risk that community banks pose to the Deposit Insurance Fund. 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. **CBAI cannot support any prepayment plan that does not use total assets minus Tier I capital as the assessment base.**

Second, for purposes of calculating the prepayment, the FDIC should use a significantly lower estimated annual deposit growth rate for banks located in those parts of the country that historically have had slower deposit growth rates. Many community banks, particularly those located in small towns and rural areas, have not experienced a 5% annual deposit growth in recent years, especially in this low interest rate environment. It would be an unfair burden on those banks if their prepayments were based on such a high annual growth rate.

Further, the FDIC should carefully consider any community bank that is seeking an exemption from this rule due to liquidity concerns. While the vast majority of community banks have sufficient liquidity to participate in a prepayment plan, some banks do not. Those banks should be given a waiver, and no bank should be put in a position of selling assets to participate in a prepayment plan.

Finally, CBAI recommends the FDIC establish an earlier refund method for those banks that have not exhausted their prepaid assessment by December 31, 2012. The proposal calls for refunds to be made after December 30, 2014. Refunds for the three year period should be made by June 30, 2013, and annual refunds should be made soon after the end of any year when a bank has significantly overpaid its prepaid assessment for that year. For instance, if a bank's prepaid assessment for 2010 exceeds by 20% the amount of its actual assessment for that year, then the FDIC should refund the excess soon after the end of 2010.

Thank you for the opportunity to comment on the FDIC's prepaid assessment proposal.

Sincerely,

Kraig Lounsberry, Senior Vice President
Community Bankers Association of Illinois