

Comments to FDIC

Dear Comments to FDIC:

As a community banker, I generally support the FDIC's 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.

This proposal is preferable to the FDIC imposing more one or more additional special assessments at a time when the industry is under stress and would ensure that the deposit insurance system remains directly industry-funded.

However, I have several recommendations concerning how the prepayment should be calculated and how it should be refunded.

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 — that is, an institution's total assets minus its Tier 1 capital.

A broader assessment base such as assets minus Tier 1 capital would result in a fairer assessment system with the larger banks paying a share of the assessments that is proportional to their size rather than their share of domestic deposits.

If the 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 approximately 20% of total bank assets.

This would not only be unfair to community banks, but would 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.

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 a 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.

Finally, I recommend 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.