March 14, 2009

Comments to FDIC

Dear Comments to FDIC:

As a community banker for over 30 years, I am deeply disappointed by the FDIC Board's proposal to impose a special assessment on all insured institutions as of June 30, 2009. Whether the special assessment is 10 or 20 basis points, this assessment, when combined with our bank's regular
2009 assessment, will be detrimental to our earnings and capital and will have an adverse effect on our ability to lend money and serve our community. The special assessment will cost us $650,000 on top of our normal assesment, for a total of $1,400,000 vs. a total of $100,000 last year. By having to pay this special assessment, we will be forced to lend $6,500,000 less than we normally would were it not for the special assessment. Talk about anti-stimulation of the economy! Muliply this type of result by the thousands of community banks in the United States that will be equally affected and you can quickly see the folly of it all.

Community banks are being unfairly penalized with this assessment. We didn't participate in the risky practices that led to the economic crisis, yet we are being penalized with this onerous special assessment on top of regular assessments that are more than double those of last year. The community banking industry is the bright spot in this current economic storm. The vast majority of community banks are well-capitalized, common-sense lenders that want to help in the economic recovery process in cities and towns throughout America. This special assessment will only hinder our ability to do so by reducing our ability to lend.

I strongly urge the FDIC:

* To explore all alternatives for funding the Deposit Insurance Fund in lieu of the special assessment including using its existing authority to borrow from the Treasury, issuing debt instruments to the public, or using its authority to borrow from the banking industry. The DIF would still be industry-funded if the FDIC used its borrowing authority, but the industry would be able to pay the cost of recapitalizing the DIF over time.

If the FDIC proceeds with imposing this special assessment, I urge the following:

* The special assessment and all future assessments should be based on total assets (minus tangible capital) of an insured institution, not its total domestic deposits, so that banks that caused the problems pay a bigger share. Since large banks hold a proportionately larger share of total banking assets, large banks should shoulder more of their fair share of the special assessment. 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 its deposits. A bank doesn't fail because of its deposits, it fails due to bad asset quality, and all forms of liabilities, not just deposits, fund a bank's assets.

* The FDIC should support a change in the accounting rules to allow banks the opportunity to amortize the special assessment over a period of years.
If the banks could amortize the special assessment over several years, for instance, this would significantly reduce its impact.

* The FDIC and Congress should support a systemic-risk premium for the large, "systemically important" banks. This premium should be large enough to pay for the substantial risk of insuring these "too-big-to fail" institutions.

Again, I urge FDIC to explore all alternatives for funding the DIF in lieu of the special assessment. The community banks in this country did not cause this crisis but yet they will pay a hefty price if this special assessment is imposed.

Sincerely,