INDEPENDENT COMMUNITY BANKERS of AMERICA®

November 24, 2010

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

Re: Notice of Proposed Rulemaking Regarding Assessment Dividends, Assessment Rates and Designated Reserve Ratio (RIN 3064-AD63)

Dear Mr. Feldman:

The Independent Community Bankers of America[1] (ICBA) welcomes the opportunity to comment on the FDIC's long-range management plan for the Deposit Insurance Fund or DIF. To increase the probability that the DIF reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC is proposing a long-range plan that would suspend dividends permanently when the DIF reserve ratio exceeds 1.5 percent. In lieu of paying dividends, the FDIC is proposing to adopt progressively lower assessment rates when the reserve ratio exceeds 2 percent and 2.5 percent. In addition, the FDIC proposes to set the designated reserve ratio at 2 percent as a long-term goal.

ICBA's Position

ICBA's representatives participated at the FDIC's September 24, 2010 roundtable on this issue and stated at that time that community banks favored steady, predictable assessments that would ensure a positive fund balance during an economic downturn. During the past two decades, banks have paid assessments as high as 23 basis points and had to deal with special assessments on top of high rates, while at other times they have not had to pay any assessments. **We believe that the FDIC's proposed long-range plan**

[1] The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever changing marketplace.

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold $1 trillion in assets, $800 billion in deposits, and $700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

would reduce the pro-cyclicality in the existing system and achieve moderate, steady assessment rates through economic and credit cycles while also maintaining a positive DIF balance during an economic downturn or even a banking crisis.

The FDIC's proposed long-term plan would try to hold assessments to an average of about 5 basis points (based on the redefined assessment base of average total consolidated assets minus average tangible capital) for an extended period of time until the DIF reserve ratio reached a reserve ratio of at least 2.5 percent. For instance, the current proposed initial base assessments rates for banks in Risk Category I is 5-9 basis points. Under the FDIC's proposed plan, base assessment rates would fall to 3-7 basis points when the DIF reserve ratio reaches 1.15 percent, 2-6 basis points when it reaches 2.0 percent and 1-5 basis points when it reaches 2.5 percent. No dividends would be paid after the reserve ratio reached 1.5 percent, which the FDIC currently has the discretion to do under the Dodd-Frank Wall Street Reform and Consumer Protection Act. In effect, the lower assessment rate schedules would serve much the same function as dividends in preventing the DIF from growing unnecessarily large, but at the same time providing more stable and predictable effective assessment rates.

We agree with the FDIC that the proposed long-term plan, which would permanently forego the possibility of a DIF dividend, is much more likely to ensure steady, predictable assessment rates. While we think that the FDIC should never completely rule out the possibility of paying a dividend from the DIF, we believe that at least until the DIF reserve ratio reaches 2.5 percent, it is prudent to forego a dividend in favor of steady, predictable assessment rates. In addition, we strongly favor having assessments rates automatically decline when the reserve ratios reach 1.15 percent, 2.0 percent and 2.5 percent respectively.

As part of its proposal, the FDIC presented the results of its analysis of what would have happened to the DIF balance from 1950 to the present using various assessment rates and dividends. The analysis presents convincing evidence that dividends introduce a level of volatility to assessment rates. For instance, under one scenario, DIF assessment rates would have to reach as high as 22 basis points to keep the fund in positive territory if there were another economic downturn like the one we just experienced and the fund paid dividends when the reserve ratio reached 1.5 percent. **The FDIC's plan is a more countercyclical approach to funding the DIF that will benefit commercial banks during times of economic distress and should reduce the likelihood of any further special assessments.**

ICBA also endorses establishing the Designated Reserve Ratio or DRR at 2 percent. We agree that setting the DRR at 2 percent would allow the fund to grow sufficiently large in good times, and would increase the likelihood that the DIF would remain positive during bad times. Having adequate funds available when entering a financial crisis would increase the likelihood that the FDIC would never need to increase assessment rates, levy special assessments on the industry, or borrow from the U.S. Treasury.

ICBA also commends the FDIC for adopting a Restoration Plan that would forego the uniform 3 basis point increase in assessment rates scheduled to go into effect on

January 1, 2011. This should save the banking industry approximately $2.3 billion per year and will allow community banks to significantly benefit from the proposed change in the assessment base. ICBA looks forward to new rulemaking next year that will describe how the FDIC will offset the effect on community banks with less than $10 billion in assets of the statutory requirement under the Dodd-Frank Act that the DIF reserve ratio increase from 1.15 percent to 1.35 percent by September 30, 2020.

Conclusion

ICBA agrees with the FDIC that the FDIC's proposed long-term management plan for the DIF would reduce the pro-cyclicality in the existing system and achieve moderate, steady assessment rates through economic and credit cycles while also maintaining a positive DIF balance. While we think that the FDIC should never completely rule out the possibility of paying a dividend from the DIF, we believe that at least until the DIF reserve ratio reaches 2.5 percent, it is prudent to forego a dividend in favor of steady, predictable assessment rates. In addition, we strongly favor the proposal to automatically reduce assessment rates when the reserve ratio reaches 1.15 percent, 2.0 percent (a 25 percent rate reduction) and 2.5 percent (50 percent rate reduction).

ICBA also endorses establishing the Designated Reserve Ratio or DRR at 2 percent and believes it should increase the likelihood that the FDIC would never need to increase assessment rates, levy special assessments on the industry, or borrow from the U.S. Treasury. ICBA also commends the FDIC for adopting a Restoration Plan that would forego the uniform 3 basis point increase in assessment rates scheduled to go into effect on January 1, 2011.

ICBA appreciates the opportunity to comment on the FDIC's proposed long-range management plan for the Deposit Insurance Fund. If you have any questions about our letter, please do not hesitate to contact me at 202-659-8111 or Chris.Cole@icba.org.

Sincerely,
/s/ Christopher Cole

Christopher Cole
Senior Vice President and Senior Regulatory Counsel