December 30, 2010

VIA EMAIL to *Comments@FDIC.gov*
Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: Proposed Rule on Assessments, Assessment Base and Rates RIN 3064-AD66

Dear Mr. Feldman:

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing approximately 300 state and nationally chartered banks, savings and loan associations, and savings banks located in communities throughout the state. WBA appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC's) proposal to amend its regulations to implement revisions to the Federal Deposit Insurance Act made by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

The FDIC is required to amend its regulations to redefine the assessment base used for calculating deposit insurance assessments in light of the enactment of the Dodd-Frank Act. Specifically, the Dodd-Frank Act directs the FDIC to define the term "assessment base" with respect to an insured depository institution (IDI) other than a custodial bank or banker's bank as an amount equal to the average consolidated total assets of the IDI during the assessment period minus the average tangible equity of the IDI during the assessment period. There is an additional deduction to this calculation for custodial banks and banker's banks. This proposal not only amends the relevant regulations needed to implement this requirement but also revises the assessment rate system and assessment rate schedule accordingly.

The changes to the assessment base and resulting changes to the assessment rate system and rate schedule should be proportional to the current schedule on the current base and not be used as a means to raise more assessment revenues.

While WBA understands and supports the Congressional mandate under the Dodd-Frank Act that the FDIC redefine the assessment base, it would be inappropriate and beyond Congress' intent for the FDIC to use the change in the assessment base as a mechanism to raise more assessment revenues. WBA assumes the FDIC has done some pro forma analysis of its insured institutions using Call Report and TFR data as part of its development of this proposal and would expect that the FDIC propose amendments such that FDIC will only raise that which it would have raised under the current assessment base and schedule. Assuming this has been done, WBA would

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expect that the assessment schedule on the new assessment base system be proportional to the current schedule on the current base. Certainly WBA supports the intent of the proposal to be revenue neutral.

Additionally, WBA strongly urges FDIC to monitor the rebuilding of the Deposit Insurance Fund (DIF) and to reduce assessments accordingly should the DIF grow faster than required to reach a 1.35 percent reserve ratio in September 2020, as mandated in the Dodd-Frank Act.

The elements of the new assessment base as well as other aspects of the proposed rule should be consistent with the current Call Report and TFR data and practice, respectively, to minimize the burden on IDIs.

WBA strongly agrees with the standard identified by FDIC that the reporting of the elements of the new assessment base should require minimal changes for IDIs to the existing reporting requirements. IDIs are already facing huge compliance burdens from the myriad of recent statutory and regulatory changes so the idea of using data that IDIs already report on the Call Report and TFR in the new assessment system is a good one.

With specific regard to defining "tangible equity," since no such definition currently exists for IDI reporting purposes, FDIC is proposing to use Tier 1 capital as the definition of tangible equity. WBA strongly supports the use of Tier 1 capital to define tangible equity in the assessment base as this avoids an increase in regulatory burden and provides a clearly understood capital buffer for the DIF in the event of an institution's failure.

FDIC is also proposing to define the averaging period for tangible equity to be monthly with an exception for IDIs less than $1 billion. IDIs under $1 billion would be allowed to either use the quarter-end figure or, at any time, may opt permanently to report average tangible equity using a monthly average balance. WBA agrees with this calculation method as proposed and believes that the exception for IDIs under $1 billion is appropriate.

However, for "average consolidated total assets" in the assessment base, WBA strongly recommends that banks be allowed to choose between the (1) average of daily figures over the quarter; or (2) average of figures from one day a week over the quarter, consistent with the current Call Report practice. Again, WBA believes it is critical that as much of this proposed rule as possible be consistent with current practices and use data already being calculated and reported in order to minimize regulatory burden on IDIs.

With some important modifications, the proposed adjustments to the new assessment base are generally reasonable.

In March 2009, FDIC added three adjustments, the unsecured debt adjustment, the secured liability adjustment and the brokered deposit adjustment, to the risk-based pricing system to better account for risk among IDIs based on their funding sources. In this proposal, FDIC is revisiting the rationale and operation of these adjustments in light of the changes to the assessment base resulting from the Dodd-Frank Act.

WBA understands that modifications to these three adjustments are now necessary as a result of the changes mandated in the Dodd-Frank Act. In fact, WBA agrees with FDIC's

proposal to discontinue the secured liability adjustment with the implementation of the new assessment base.

Nonetheless, any modifications done to the unsecured debt (which also now includes a depository institution debt adjustment) and brokered deposits adjustments should not only align with the expected risk exposure to the DIF but also provide incentives for sound banking.

As the FDIC points out in its questions, other programs continue to exist which encourage IDIs to issue unsecured debt. Consequently, modifications to the unsecured debt adjustment must be carefully made so as to not effectively eliminate this as a reasonable funding source. FDIC's proposal increases the assessment rate of an IDI that holds unsecured debt issued by another IDI. The proposal would apply a 50 basis point adjustment to every dollar of long-term unsecured debt held by an IDI when that debt is issued by another IDI. While WBA understands FDIC's concern that such interbank borrowing could increase the speed at which financial shock gets passed through the system, and while WBA agrees that unsecured debt is an asset of the IDI holding the debt and therefore the adjustment under the new assessment system should be on the holder rather than the issuer, WBA questions whether a 50 basis point "tax" isn't excessive.

Finally, WBA strongly suggests FDIC add one more adjustment to the assessment base for all IDIs for federal funds sold. Under the proposal FDIC would exclude from the assessment base for banker's banks the daily average amount of reserve balances "passed through" to the Federal Reserve, the daily average amount of reserve balances held at the Federal Reserve for its own account, and the daily average amount of its federal funds sold. While WBA believes FDIC's proposed adjustments to the assessment base for banker's banks are reasonable, WBA strongly recommends the average daily balance of federal funds sold should be deducted from the assessment base for **all** banks, not just banker's banks. WBA is concerned that if this deduction is not provided for all IDIs, the proposal as it is currently set forth may have unintended consequences for the federal funds market.

Conclusion

WBA strongly encourages FDIC to consider the modifications suggested above prior to finalizing this proposal. WBA further believes IDIs should be given at least six months from the publication date of the final rule before it would become effective in order to modify reporting systems to conform to the new reporting requirements. Once again, WBA appreciates the opportunity to comment on FDIC's proposal to amend its regulations to implement revisions to the Federal Deposit Insurance Act made by the Dodd-Frank Act.

Sincerely,

Rose Oswald Poels
Senior Vice President and Counsel