

January 3, 2011

Mr. Robert E. Feldman, Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street NW  
Washington, DC 20429

Reference RIN 3064-AD66 Assessments, Large Bank Pricing

Dear Mr. Feldman:

BB&T Corporation (BB&T) appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) proposed revisions to the assessment system applicable to large insured depository institutions.

BB&T Corporation (NYSE: BBT) is one of the largest financial services holding companies in the U.S. with more than \$157.2 billion in assets and market capitalization of \$16.7 billion, as of Sept. 30, 2010. Based in Winston-Salem, N.C., the company operates approximately 1,800 financial centers in 12 states and Washington, D.C., and offers a full range of consumer and commercial banking, securities brokerage, asset management, mortgage and insurance products and services. A *Fortune 500* company, BB&T is consistently recognized for outstanding client satisfaction by J.D. Power and Associates, the U.S. Small Business Administration, Greenwich Associates and others. More information about BB&T and its full line of products and services is available at [www.BBT.com](http://www.BBT.com).

BB&T supports the FDIC's efforts to amend its assessment system to more accurately reflect the risk of losses to the Deposit Insurance Fund (DIF) associated with the composition and concentration of an Insured Depository Institution's (IDI) assets and liabilities. We have several concerns with specific aspects of the proposal, which are listed below.

#### **Comment Period and Proposed Implementation Timeframe Too Short**

The proposed changes in assessment pricing are very complex and require extensive review and time-consuming analysis to assess how fully they would achieve the FDIC's goals and their financial and other impacts on particular IDIs. We do not believe that the relatively short comment period for this proposal has allowed BB&T and other interested parties sufficient time to complete the thorough review appropriate for rules that will have such a significant impact on the safety and soundness of the U.S. banking system

and we strongly urge the FDIC to extend the comment period for an additional thirty days.

Additionally, as the FDIC is aware, the Dodd-Frank Wall Street Reform and Consumer Protection Act mandates more than 240 separate rulemakings over the next several years. As a result, IDIs will need to devote significant additional resources to their compliance programs, and will continue to do so for the foreseeable future. Accordingly, and in order to provide sufficient time for IDIs to make the extensive system and procedural changes needed to provide accurate and timely assessment calculation data, we urge the FDIC to make the effective date for any new rules be at least six months following publication of the final rules.

### **Proposed Scorecard Should be Adjusted to Reflect Increase in Assessment Base**

BB&T does not believe the proposed large bank scorecard appropriately takes into consideration the change in the assessment base that will take effect for the 2<sup>nd</sup> Quarter 2011 as required under the Dodd-Frank legislation. This change, from being based on domestic deposits to a base of assets less tangible equity, will significantly increase the assessment base for most large IDIs. The FDIC's proposed risk-based scorecard does not reflect an appropriate downward adjustment commensurate with the increased assessment base. While the FDIC maintains that the proposal is revenue neutral to the DIF, we believe that it will result in increased assessments for the industry and inappropriately and unfairly shift a significant portion of the funding burden to large IDIs in a manner that is inconsistent with the FDIC's statutory mission to assess IDIs based on their risk to the DIF. During a December 20 conference call, FDIC staff noted that under the current assessment structure, large IDIs pay approximately 70% of all assessments, but will pay approximately 80% under the proposed methodology. We believe this change is unreasonable, given that during the period 2006 to 2009, the DIF incurred losses on just .8% of insured deposits at large IDIs, compared to losses of 1.5% for smaller IDIs.

The interim rule proposed by the FDIC for the 2009 special assessment called for a 10 basis point assessment on domestic deposits. However, the final rule imposed a 5 basis point assessment on an IDI's total assets less tier 1 capital regardless of asset size. In contrast, the proposed scorecard is a further redistribution of assessment costs to the larger institutions and does not appropriately distribute the costs to all institutions based on the risk to the insurance fund.

We also believe that the increased assessments that result from the new methodology will risk slowing the pace of economic recovery. We strongly urge the FDIC to recalibrate the risk-based scorecard to reflect the expanded assessment base and appropriately allocate assessments among IDIs based on actual risk.

### **Subprime Loans Should be Defined as in 2001 Guidance**

Appendix C of the proposal states that "For purposes of the concentration measure, subprime loans include loans that were not considered subprime at origination, but meet the characteristics of subprime subsequent to origination." This designation is a significant shift from the interagency guidance *Expanded Guidance for Subprime*

*Lending Programs* issued in 2001 that stated (italics added) “...subprime lending does not refer to individual subprime loans originated and managed, in the ordinary course of business, as exceptions to prime risk selection standards. The agencies recognize that many prime loan portfolios will contain such accounts. Additionally, *this guidance will generally not apply to: prime loans that develop credit problems after acquisition...*”

We believe the 2001 interagency guidance appropriately defines subprime lending and that the FDIC should use the 2001 definition in its proposed assessment system.

Additionally, in our judgment the Concentration measure should stay focused on specific portfolios and programs that are considered to have inherently higher risk. We also note that including loans that become subprime after origination is inconsistent with the goal of reducing pro-cyclicality in the current system. The proposed Large Institution Pricing scorecard already takes credit quality into account directly through the Credit Quality measure and the “A” in CAMELS, as well as indirectly through Core Earnings. Lastly, from a practical standpoint, this expanded definition will be difficult to implement consistently across all IDIs and will necessitate an extended implementation timeframe to accommodate the more complex reporting required.

#### **Leveraged Loans Should be Defined as in 2001 Guidance**

Appendix C of the proposal also states that, “For purposes of the concentration measure, leveraged loans include all loans and/or securitizations that may not have been considered leveraged at the time of origination, but subsequent to origination, meet the characteristics of a leveraged loan.” This guidance is a significant shift from the interagency guidance *Agencies Issue Risk Management Practices for Leveraged Financing* issued in 2001.

The bright line rules being prescribed are also a significant shift from previous interagency guidance. Previous guidance is focused on industry norms, and not across-the-board bright line rules; “A transaction is considered leveraged when the obligor’s post-financing leverage as measured by debt-to-assets, debt-to-equity, cash flow-to-total debt, or other such standards unique to particular industries significantly exceeds industry norms for leverage.” Particularly concerning is the bright line rule that classifies any loans or securities with a balance sheet leverage ratio (total liabilities/total assets) higher than 50 percent as a Leveraged Loan. This would result in many loans that are not Leveraged Loans being classified as such. The bright line rules around EBITDA are also concerning, and would place a large burden on IDI’s to implement and track.

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consistently across all IDI's and will necessitate an extended implementation timeframe to accommodate the more complex reporting required.

### **Treatment of Government Guaranteed Loans Should be Consistent**

We support the FDIC's proposal to exclude the maximum recoverable amounts from U.S. government secured or insured loans from the underperforming assets category. However, these assets should also have been excluded from the higher-risk assets category and from the Loss Severity measure. To avoid distorting the scorecard calculations, we recommend that government secured or insured loan amounts should be consistently excluded from all three components. We note that the proposal stipulates that government secured loans should be excluded from the higher-risk concentration measure but for construction and land development loans the current scorecard is populating the field incorrectly due to the lack of data. We also note that the proposed changes to the Call Report for 2011 will allow for the collection of detailed data on loans and other assets covered by loss sharing agreements and request that the scorecard be updated to adjust this measure appropriately.

### **Agency Mortgage-Backed Securities Should Be Included in Balance Sheet Liquidity Ratio**

The listing of assets included in the Balance Sheet Liquidity Ratio category excludes agency mortgage-backed securities. Throughout the recent financial crisis, agency mortgage-backed securities provided a very stable source of liquidity. Furthermore, this exclusion ignores the liquidity that is inherent in these securities and also ignores the significant cash flows they generate. We believe that agency mortgage-backed securities represent a significant element in measuring an IDI's liquidity and should be factored into the Balance Sheet Liquidity Ratio category.

### **Number of Score Card Measures Results in Counting Similar Measures Multiple Times**

The score card measures that have been selected result in similar credit measures being counted in multiple areas. For example, credit risk is a component of CAMELS, Concentration Measure, Credit Quality Measure, and Potential Losses. This could lead to unintended correlations among the measures.

### **Potential Loss Severity Measure Requires Further Analysis**

We are concerned that several elements of the Potential Loss Severity measure appear to be based on inconsistent assumptions or are otherwise suspect. For example:

- The Loss Severity measure inappropriately increases Loans and Other Assets for IDIs that have a rich insurable deposit base. While we recognize that an inflow of insurable deposits is reasonable, the model should not allow for Loans and Other Assets to grow, and would suggest that either the model gets capped (i.e., does not allow for growth) or puts the excess funding into Cash, Fed Funds Sold, or Treasury and Agency Securities.

- The reduction of Equity down to a Tier I Ratio of 2% results in a 100% loss of any Equity greater than 2%. This is both unreasonable and also inconsistent with the loss rates that are proposed. At a minimum, the same loss rates should be applied to reduce an IDI's Tier I Ratio down to 2%. The proposed treatment does not adequately distinguish between IDIs with strong Tier 1 Ratios and other IDIs.
- Due to the implementation of SFAS 141 (R) in 2009, the carrying value of acquired loans has in many cases been marked down. As a result, loss rates on these assets will likely be lower than the historical values used in developing the Loss Severity Score's *Potential Losses/Total Domestic Deposits* measure. In a December 20 conference call, FDIC staff suggested that allowance could be made for this effect through subjective adjustments. However, since all banks are now subject to SFAS 141 (R), such subjective adjustments may be required for every large bank. A more realistic approach would be for the loss parameters to be adjusted down. Unfortunately, since data to recalibrate the parameters will not be available until some point in the future, judgmental adjustments may be needed in the interim.

**Large Bank Adjustment to Total Score is Too Large and May Not Be Applied Consistently**

While we appreciate and understand that specific factors of the scorecard may not appropriately capture the risk an individual IDI poses to the DFI, we believe that the current proposal to allow for an adjustment to the score of up to 15 points up or down is too large, especially given the disproportionate negative effect this could have on an IDI's overall assessment rate.

Thank you for your consideration of our comments, and please feel free to contact me with any questions.

Sincerely,



Daryl Bible  
BB&T  
Chief Financial Officer