January 3, 2011

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

RE: RIN 3064-AD66 – Assessments, Large Bank Pricing NPR

Mr. Feldman,

MidFirst Bank would like to thank the Federal Deposit Insurance Corporation for the opportunity to comment on the Notice of Proposed Rulemaking for Assessments and Large Bank Pricing as published in the November 24, 2010, Federal Register beginning on page 72612 as amended by the notice published in the November 30, 2010, Federal Register on page 73982. MidFirst Bank is an $11 billion federally chartered savings association headquartered in Oklahoma City, Oklahoma.

MidFirst supports the FDIC's intent to better reflect the risk exposure of individual insured institutions and to better align that risk with the FDIC insurance premiums paid by institutions. However, MidFirst believes certain refinements as outlined below should be considered as the rule is finalized.

Large Bank Designation

MidFirst believes the $10 billion threshold at which insured depository institutions ("IDI's") become subject to the large bank assessment is arbitrary and established on anecdotal evidence relating to the perceived risks of "big banks." Accordingly, we suggest the threshold be increased, if not discarded entirely. Although the final threshold would be subject to debate regardless of level, using a $10 billion threshold segregates IDI's of similar size that offer similar products, target similar markets, and pursue similar strategies, thereby establishing an unlevel playing field for substantially identical institutions. As of September 30, 2010, there were 22 IDI's with assets between $8 billion and $10 billion (combined assets of $194 billion). Although similar in size to the 21 IDI's with assets between $10 billion and $12 billion (combined assets of $232 billion), the smaller IDI's are more likely to have a lower cost structure, and thus a competitive advantage, when compared to their competitors just above the $10 billion threshold. A higher threshold would minimize this effect. For example, if the threshold were raised from $10 billion to $15 billion, far fewer institutions would be affected by the threshold selection while having a small impact on the assessment base subject to the proposed rule. As of September 30, 2010, there were 14 IDI's with assets between $13 billion and $15 billion and only 4 IDI's with assets between $15 billion and $17 billion. The combined assets of the IDI's that would be removed from the scope of this proposed rule (i.e., the IDI's with assets between $10 billion and $15 billion) account for less than 5% of the total assets of all IDI's with assets greater than $10 billion.

Higher Risk Concentrations

In determining an IDI's ability to withstand asset-related stress, the proposal calls for a calculation of Higher Risk Concentrations. Three of the proposed Higher Risk Concentrations – Leveraged Lending, Nontraditional Mortgages, and Subprime Loans – are measurements that IDI's do not currently report in Call Reports or Thrift Financial Reports. The criteria that the FDIC has proposed to calculate the Higher Risk Concentrations is not information that most IDI's would have readily available and may not be information that IDI's could even compel customers to give them. Many of these calculations, such as borrower balance sheet leverage and borrower operating leverage would require IDI's to perform new research on a large portion of their commercial loan portfolios. For banks within the scope of the proposed rule, this would require research on thousands of loans. This would require an unreasonable amount of time and expense, and would guarantee no consistency in the reporting among IDI's. Furthermore, the proposal seems to require IDI's to perform these calculations on an ongoing basis, thereby continuing such unreasonable expenses perpetually and to the detriment of the IDI and its customers. Loan agreements may not require borrowers to provide this information and so it is difficult to imagine how such calculations will be possible and how IDI's will be able to comply with this type of reporting.

We also suggest that prime loans not have the potential to be designated as Subprime Loans subsequent to origination simply due to a change in borrower circumstance such as credit score or debt ratio. Not only would this expose an IDI to significant expense, an expense that ultimately increases the cost of borrowing to the consumer to cover the IDI's expense but also discounts the fact the lender originated the loan pursuant to prime loan criteria. While obtaining this additional information may be ideal from a portfolio risk management perspective, the added expense and burden, particularly if required on a frequent basis and on homogenous (single family and consumer) loans is not realistically commensurate with any identified benefit in relation to insurance assessments.

Finally, with respect to Higher Risk Concentrations, we would suggest that Classified, Criticized, and Underperforming assets should be excluded from Higher Risk Concentrations because they are separately measured within the Credit Quality Measure, which is also used to determine an IDI's ability to withstand asset-related stress. Including those assets in all of these calculations double counts these assets, thereby overstating risk.

Balance Sheet Liquidity Ratio

The Balance Sheet Liquidity Ratio is one of the two scorecard measurements that are used to determine an IDI's ability to withstand funding-related stress. This measurement, which is a ratio of an IDI's liquid assets to its short-term liabilities, includes agency securities as liquid assets, with the exception of agency mortgage-backed securities (MBS). Agency MBS are highly liquid assets and remained so even during the nation's recent financial crisis.

The exclusion of agency MBS from the FDIC's definition of liquid assets is likely to have severe, unintended consequences. If the FDIC fails to include agency MBS in the Balance Sheet Liquidity Ratio, it will discourage banks from owning such securities, resulting in more limited availability of credit to would-be homeowners and inhibiting the nation's housing market recovery.

This view of agency MBS as liquid assets is supported by the December 2010 release of the <u>Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring</u>. That framework issued by the Basel Committee on Banking Supervision also introduces measurements to assess a financial institution's ability to withstand funding-related stress. In the Committee's report they identify unencumbered agency MBS as "high quality liquid assets" and give credit in their measurements to the institution for holding these instruments. In their calculation, MBS guaranteed by GNMA would be subject to no haircut, while securities guaranteed by FNMA or FHLMC would be subject to a 15% haircut.

Core Deposits

The second measurement used to determine an IDI's ability to withstand funding-related stress is the ratio of Core Deposits to Total Liabilities. This ratio excludes all brokered deposits from the definition of Core Deposits. If the FDIC is truly trying to determine the IDI's ability to withstand funding-related stress, long-term brokered deposits should be included as Core Deposits for this purpose. While non-brokered deposits can be withdrawn at the depositors' discretion, brokered deposits cannot be redeemed before their maturity date, except due to the death or incapacity of the depositor. Accordingly, brokered deposits with remaining maturities greater than one year actually withstand funding stress better than non-brokered deposits.

Potential Losses

In order to determine potential loss severity, the proposed scorecard performs a series of calculations to estimate the potential loss to the Deposit Insurance Fund in the event of the failure of the IDI. However, certain assumptions used in the calculations are not indicative of a failing IDI.

In the first place, the model assumes that insured deposits grow by 32 percent, presumably replacing other funding that is running off. This assumption for many institutions will result in balance sheet growth. In actuality, the institutions that have large amounts of liquid assets can shrink the balance sheet as funding falls. The model should allow the balance sheet to shrink by a large proportion of liquid assets before assuming that more funding is needed.

In the second place, the model assumes that the material growth in the balance sheet is then allocated among asset classes in proportion to the IDI's current assets. Then, projected loss rates are applied to the asset classes. Highly liquid classes such as cash and certain securities receive 0 percent loss rates, while consumer and commercial loans receive loss rates ranging from 11 percent to 41 percent. The problem with this assumption is that the underlying assumption is unreasonable, namely, that growth leading up to an IDI's failure will occur in asset classes other than highly liquid assets. As an IDI approaches failure, bank supervisors put in place agreements and other controls to prevent IDI's from increasing investments in higher risk asset classes. So, to the extent that the FDIC's loss severity model projects net growth in the balance sheet, the assumption should be that the growth is kept only in cash and liquid assets.

Noncore Funding

The second proposed scorecard measurement being used to determine potential loss severity is the Noncore Funding ratio. This ratio considers all brokered deposits as Noncore Funding. However, as previously mentioned, long-term brokered deposits are actually more stable than non-brokered deposits because they cannot be redeemed before their maturity, except in the case of death or incapacity of the depositor. Therefore, we believe that brokered deposits with remaining maturities greater than one year should be excluded from the Noncore Funding ratio.

MidFirst thanks the FDIC for the opportunity to comment as it develops final insurance assessment regulations. Should additional information be required, please contact the undersigned.

Sincerely,

Charles Lee
Vice President and
Director of Bank Regulatory Affairs
MidFirst Bank